Workplace Safety and Insurance Board
2010 Annual Report

wsib ONTARIO

Building trust through fairness and integrity

wsib
ONTARIO

Workplace Safety and Insurance Board
2010 Annual Report

This document is published by the WSIB's Communications and Public Affairs Division. For additional copies, please visit our website (www.wsib.on.ca), phone (416) 344-4185 or (toll-free) 1-800-387-5540, ext. 4185

General Information: (416) 344-1000
Toll-free: 1-800-387-5540
TTY: 1-800-387-0050
email: wsibcomm@wsib.on.ca

Head Office:
200 Front Street West
Toronto, Ontario M5V 3J1

Table of contents

Chair's message 4

President and CEO's message 6

2010: The year in review 9

Summary of results 14

2011-2013 Corporate Business Plan 15

The way forward 18

Board of Directors and committees 19

Management's discussion and analysis 20

- Statement of management's responsibility 20
- Accounting changes for 2010 20
- About the WSIB 21
- Corporate strategy 21
- Factors that may affect results 22
- 2010 financial performance at a glance 24
- Outlook 27
- Enterprise risk management 28
- Accounting matters 28
- Future changes in accounting policies 29
- 2010 financial performance – additional details 31

Responsibility for financial reporting 36

Independent Auditors' report 38

Actuarial opinion 39

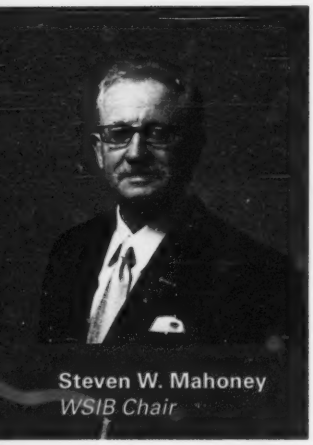
Consolidated financial statements 40

- Consolidated balance sheet 40
- Consolidated statement of operations 41
- Consolidated statement of changes in unfunded liability 41
- Consolidated statement of comprehensive income (loss) 42
- Consolidated statement of cash flows 42

Notes to the consolidated financial statements 43

Ten-year summary 71

Chair's message



Steven W. Mahoney
WSIB Chair

Listening to you: Finding balance and finding solutions

2010 began with the release of a report on my 2009 stakeholder consultations. This critical examination of the WSIB's programs and policies provided valuable feedback to our Board of Directors and our entire organization. It also helped our new President and CEO David Marshall understand the vital concerns of the workers and employers we serve.

What we heard was that our stakeholders want an affordable, value-added workplace health and safety system for Ontario. They want a system that is clearly accountable to the people of Ontario and a system that is financially sustainable. How we get there remains a matter of debate and discussion between the WSIB, our system partners, workers, organized labour and employers of all sizes across the industry sectors.

The Funding Review, launched in the fall of 2010 and chaired by Professor Harry Arthurs, is aimed at getting to those answers through formal consultation and input from stakeholders on the best way to address the unfunded liability (UFL). Through the Funding Review, ideas, priorities and suggestions will be heard within a framework based on a common understanding of the real-world environment in which the WSIB operates.

Dialogue for change: Advisory Committees

In 2010, regular meetings of newly established stakeholder Advisory Committees commenced. With representatives from key industry, labour, and worker groups, these Advisory Committees provide a forum for discussing the impact of WSIB policy and program changes. I want to thank the members of these committees for their time and ongoing commitment to working with the WSIB to foster a frank and productive dialogue about the issues and challenges we are facing together.

These Advisory Committees are an important step toward building an environment of meaningful consultation, continuous stakeholder engagement and a two-way conversation about our future direction.

Moving forward: From talk to transformation

Early in 2010, the Standing Committee on Public Accounts was told that this would be a transformative year for the WSIB. Given the comprehensive work we've already done to target the key drivers of the UFL, the launch of the Funding Review and the development of a strategic plan, it is clear that change is underway. Our 2010 financial results are already showing incremental improvements to our bottom line.

David Marshall has provided valuable leadership and a keen understanding of what it will take to move the WSIB toward financial sustainability. We must ensure that our core values and obligations are met as we serve the workers and employers of Ontario.

What matters most is that we're providing employers with value for the premiums they pay and that we're treating injured workers with fairness and compassion. To do this, we need sufficient funding to protect the long-term integrity of the system, preserve worker benefits, and provide a solid foundation for service excellence.

Voices for change: Protecting workers

Injured workers and their families remain at the heart of everything we do at the WSIB. On Christmas Eve 2009, we experienced the tragic loss of four workers who were killed

in a 13 storey fall from a scaffold. In the aftermath of the worst one-day construction tragedy in Toronto in half a century, the Ontario government appointed an Expert Advisory Panel on Occupational Health and Safety to conduct hearings across Ontario and make recommendations to improve workplace safety in Ontario.

The Panel's report was released late in 2010 and included a recommendation to create a new prevention organization within the Ministry of Labour. Many have characterized this recommendation as taking the WSIB "out of the prevention business." I want to assure the workers and employers of this province that the WSIB will always have a vital role as a key partner in Ontario's occupational health and safety system.

We are very proud of our achievements in contributing to the reduction of workplace injuries in Ontario workplaces. Over the past 12 years, we have changed the way people see workplace injuries. And the difference we have made goes beyond attitudes and beliefs. There are hard numbers that reflect our success:

- Lost time injuries reduced by 46 per cent since 1999
- Traumatic fatalities among young workers down by more than 75 per cent since 1999
- Employers' belief that the WSIB helps prevent workplace injuries rose from 74 per cent in 2000 to 84% in 2008
- In a 2008 survey, 94 per cent of workers and 95 per cent of employers strongly agreed that workplace injuries are preventable.

Looking ahead, the WSIB will do all it can to work with the Ministry of Labour and our system partners to refocus and renew prevention efforts in Ontario. We are still committed to making this province the safest place in the world to work.

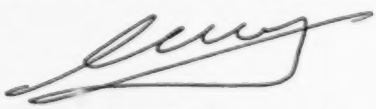
A call to action: Working together

The end of 2010 marked the end of a challenging decade for the WSIB. Each of these challenges has provided us with an opportunity for constructive growth as we continue to build a stronger workplace health and safety and insurance system for Ontario's workers and employers.

I firmly believe that we are moving in the right direction and the work of the last five to ten years has built a solid foundation for the hard work ahead.

The WSIB cannot do this work in isolation from its stakeholders. We need every worker and employer, every service provider and health professional, every health and safety partner and our government leaders to work cooperatively toward a shared goal. And we know that the WSIB and our partners are up for this challenge. Over the course of my five years as Chair of the WSIB, the people I've met have made it clear that they want our system to work. They may have different ideas about how we get there but we all share a common belief in the need for a reliable, fair, and cost-effective system of no-fault workplace insurance for Ontario.

These are the core principles on which workers' compensation was founded almost a hundred years ago by Sir William Meredith. I am confident that the next few years will see a renewal of our commitment to those principles, and we will continue to support an environment of cooperation, open communication and genuine collaboration that will bring everyone to the table to find solutions that work for Ontario.



Hon. Steven W. Mahoney, Chair

President and CEO's message

I. David Marshall
WSIB President and CEO

Solving the unfunded liability problem

For the WSIB, 2010 was a year of rigorous and objective examination and analysis of the WSIB. It was also a year of change, and a year in which stakeholders saw the WSIB gaining momentum towards a range of successful outcomes.

Beginnings

When the WSIB began in 1914, its founding principles were the care of workers injured in the workplace and an historic compromise under which workers gave up their rights to sue employers in cases of work-related injury and, in exchange, employers agreed to pay into a fund that would provide fair and efficient compensation. At the time, similar provisions were being introduced across Canada and in the United States.

In the Ontario system, employers pay premiums into an insurance fund that pools their liabilities to pay benefits to injured workers. Since the question of appropriate compensation for injured workers has been removed from the court system, the government sets benefit levels under legislation, which is administered by the WSIB.

Evolution

Over the almost 100 years of its existence, the WSIB system has served Ontario's businesses, workers, and society well. During that time, there have, of course, been changes. One of these changes introduced the payment of medical care for injured workers, pre-dating Canada's public health-care system.

This feature continues today, with the workplace insurance scheme paying some half a billion dollars annually for medical care that is not charged to the public health-care system. Other changes have extended benefits to include retirement income support, and benefit adjustments to provide some protection from inflation.

Stakeholder interests

There are inherent differing interests among the WSIB's stakeholders. Employers want to see lower premiums and lower benefits paid, while workers want benefits that compensate them not only for the medical costs of injuries but for loss of wages and pain and suffering caused to themselves and their families. These differing interests serve to create tensions and a certain degree of debate as to the proper functioning of the insurance scheme on the part of both sets of stakeholders, neither of whom sees all their interests being served in full.

Role of government

The government has an important part to play in the functioning of the workplace insurance system. Appropriately, it is government that defines fair compensation for people who are injured at work. It is the government that balances the interests of workers and employers by setting benefits at appropriate levels.

But there is an equally compelling reason for the government to be involved, and that is the significant impact that the workplace insurance system has on Ontario's economy. Compensation for workplace injuries is about more than the calculation of medical costs and costs of lost wages; the total liability for workplace insurance benefits in the system currently stands at some $45 billion dollars. A liability that large has a significant effect on the economy of this province.

Hundreds of thousands of workers are injured each year, and billions of dollars are paid in compensation. This is a matter that cannot be left entirely to the marketplace to decide. Government has to get involved because – as well as considering our workplace insurance system's impact on the level of productive employment in Ontario, and the overall cost and impact of injuries in the workplace – our system also very much reflects the values we want to live by.

Factors such as what benefit levels are adequate, what should be done to reduce injury levels, how premiums can be reduced, and what can be done about new risks to workers are weighed by the Ministry of Labour and other branches of government. Their decisions influence the dialogue and priorities the Ministry sets for the managers of the insurance legislation and scheme – the WSIB.

Concerns for the future

The UFL has heightened concerns about the viability of the workplace insurance scheme. Employers complain that the cost of carrying the liabilities of past claims is causing Ontario to lose competitive advantage; workers complain that employers have not been paying fair premiums, so that their benefits are insufficient.

The reality is that the workplace insurance scheme has become financially challenged and, as the Auditor General pointed out in 2009, all stakeholders must come to the table and work out an acceptable plan to bring it back to financial health or government will be forced to take the existing liability onto its own books and service it through taxes on the general taxpayer. The actions required to deal with this situation will become more drastic and their consequences less desirable for all stakeholders.

Why has the scheme fallen out of balance? Why has this condition persisted for so many years? Is it possible to run a well-funded, well-financed worker's insurance scheme that is both affordable and fair? There are many examples amongst other Canadian provinces where this is indeed the case, but can it be done here in Ontario? These are the questions that this document and the WSIB's 2011-2013 Corporate Business Plan aim to address.

The solution: A commitment to reform

The WSIB is committed to change and improvement. To achieve this, it has put in place in 2010 several key initiatives to address the causes of the UFL. The WSIB needs to improve its financial situation by eliminating the UFL and moving towards a sufficiently funded system. This is the standard for most other Canadian workers' compensation systems. With a sufficiently funded system, future benefits are secure and employer premiums are lower.

Building integrity, trust, fairness

The WSIB has taken charge of its agenda. It must fulfil the responsibility of an independent trust organization to be accountable and to make the hard decisions and the changes necessary to bring itself to financial viability. It must provide services and benefits focused on what matters to its customers.

The WSIB is now focused on making sure employers are able to carry on their businesses with a measure of protection from the financial consequences of workplace injuries and illnesses; and on making sure that workers are secure in the knowledge that services and support are there to help them return to work, and to their normal lives, after workplace incidents.

A balanced plan

The WSIB's 2011-2013 Corporate Business Plan sets out the strategic direction and objectives the WSIB will pursue over the next three years. It provides a range of solutions designed to bring the WSIB to a sufficiently funded position within a reasonable time frame.

The WSIB's plan has equal measures of management actions and premium increases. It is not reducing benefits, and it is not just asking employers to take the whole burden. In 2011, the WSIB will build the change on trust, integrity, and fairness in the services it provides to workers and employers. Ontario's workplace insurance system will be run with financial rigour and discipline to ensure the long-term viability of this essential service in Ontario.

In 2010, the WSIB built up a great deal of momentum. This will help us in the coming years as we build a reputation as an organization of integrity that consistently demonstrates fairness and earns the trust of the people it serves.

Stakeholders and staff rising to the challenge

On a personal note, I wish to thank stakeholders for their participation, support, and cooperation. I must also thank the managers and staff of the WSIB for their extraordinary effort during 2010. The results speak for themselves, and are due in large part to the dedication and hard work of our people.

I. David Marshall, President and CEO

2010: The year in review

The year began with the Auditor General's report's warning that the unfunded liability (UFL) had reached an alarming level. Competing, and as yet unreconciled, stakeholder interests and government interventions were making the situation more difficult to manage. 2010 turned out to be a year of landmark events that will influence the WSIB and its performance for many years to come.

- Over the next few months, responsibility for prevention will be moved from the WSIB to the Ministry of Labour, leaving the WSIB to focus on its insurance function.
- The government, for the first time in the WSIB's history, passed legislation requiring the WSIB to become sufficiently funded in its Insurance Fund, and to stay sufficiently funded.
- The Funding Review, which includes a year-long consultation and dialogue with stakeholders, will make recommendations for improvement to a range of structural issues.
- The value-for-money audit being conducted by KPMG will report on a range of improvements to the administration of WSIB claims.
- The WSIB developed a corporate business plan following an extensive examination of operational, cost, and revenue drivers of its insurance operations.
- At the same time, management proceeded to act on key operational issues, showing remarkable early results.

An in-depth review of the WSIB's business

2010 was a watershed year in which the WSIB looked very closely at every aspect of its business to find out why its finances have been out of balance for 30 years or more.

The WSIB looked at its revenue; it looked at premiums; it looked at its investment strategies, and what they were returning. The WSIB looked at its incentive programs, and their effects on its balance sheet; and it looked at its actuarial assumptions, because the UFL is based on projected costs.
The WSIB also looked closely at injury frequency and types of injuries, to see if different types of injuries lead to different costs. It looked at how claims are being administered and how health care is provided, and it looked at its service delivery model.

Health and Safety Associations and other partners in the system were also examined carefully; and the WSIB looked at its legislation, its mandate, and the support it is getting from government.

The UFL is a real problem

The very clear conclusion is that the UFL is a real-world problem with real-world impacts on businesses in this province.

Claims for WSIB benefits are paid for by employer premiums. Premiums have to cover the cost of benefits for new claims as they come in, as well as claims already in the system. Future revenue has to pay for future claims and our liability for some 160,000 claims, whose benefits are locked in by law. As of the end of 2010, there was a very real $12.36-billion dollar shortfall – a shortfall for the future projected costs of claims already in the system for which premiums were not collected.

The real cost of the UFL

Ontario employers are, in effect, also paying interest on that uncollected $12.36 billion through higher premiums. In 2010 alone, Ontario businesses collectively paid the WSIB $815 million to carry the UFL. That is essentially the same as a paying about a 7 per cent interest rate on a loan. The UFL "loan" has cost businesses $6 billion in "interest" over the last 10 years.

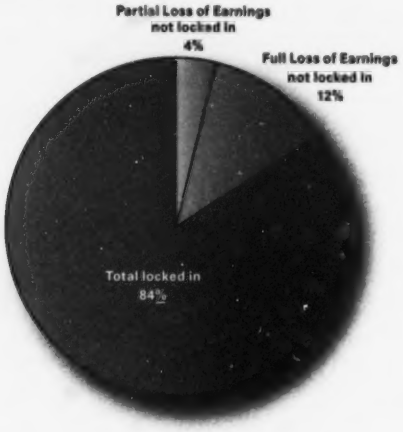
Cost of the claims inventory

In spite of the fact that the number of lost-time injuries over the past few years has come down, costs per claim have gone up. A major cause of this has been rising claims duration. This is driven in turn by an increase in the severity of claims, as evidenced by the rising incidence and extent of permanent impairment awards in Ontario compared with other provinces. A few categories of high-impact claims – lower back, shoulder, and fractures – cause a disproportionate extent of duration and costs.

The vast majority of WSIB claims are paid out within a few weeks, with more paid out after a few years. But 160,000 claims with locked-in benefits will be paid out 10, 20, and 30 years from now. They make up 84 per cent of the almost 190,000 claims in the WSIB's inventory, and $17 billion of the $24.35 billion net present value ($45 billion lifetime costs) of the claims in the system.

There is little that can be done about these costs, which is why the focus of the WSIB's management actions must be on claims entering the system and those not yet locked in.

Schedule 1: allowed lost-time claims inventory (2010)



The impacts of WSIB incentive programs

Employer incentives have also added huge costs to the system in recent years. The WSIB has given out $2.5 billion more in rebates than it has collected in surcharges since 1994, and that difference goes straight to the UFL.

About 40 per cent of locked-in claims at 100 per cent loss of earnings have had relief under the WSIB's Second Injury and Enhancement Fund (SIEF). The WSIB has found that some employer incentives are actually encouraging employers not to get people back to work, and that SIEF relief can actually remove the incentive under the experience-rating programs for employers to take injured workers back.

Controlling administrative costs

The WSIB has found that its administrative costs are in line with other Canadian jurisdictions. In turn, an Institute for Work and Health (IWH) study says that administrative costs in Canada are lower than in California, where the system is privatized.

Improvements in customer service

The WSIB knows from talking to its customers that there is still room for improvement in the area of customer service. It has listened to calls from customers for a more accessible WSIB, and for more opportunities to do business online. It responded with an initial suite of eServices that allow many transactions to be completed via the WSIB website 24/7, and will develop more.

The WSIB knows it needs to work to keep the lines of communication open, to maintain an ongoing dialogue with its stakeholders on all of the important issues so it can continue to be responsive to their changing needs and concerns.

WSIB funding review

The Funding Review, initiated in 2010, is seeking input from workers, labour, and employers of all sizes on a range of public-policy issues relating to the WSIB's financial future. The review will continue throughout 2011. At its conclusion, the WSIB expects to have valuable new insights on how to manage its financial situation while meeting the needs of its customers. Incorporating findings from the review, clear funding targets, and timelines will be established to help the WSIB meet its legislated obligation to achieve and maintain sufficient funding.

Value-for-money audit

In 2010, KPMG conducted a value-for-money audit of the WSIB claims administration and adjudication process. The audit is focusing on key decision-making points in the life of a case as they relate to the efficiency and effectiveness of the claim processing and decision-making function. The findings will tell us whether these decision points are achieving accurate, timely, and consistent decisions in a financially responsible and accountable manner. KPMG will deliver the results of this audit in 2011.

Premium rates

A large part of the steady rise in the UFL in recent years can be attributed to insufficient premium revenue. Benefit costs have outpaced premium revenue increases by five per cent each year since 1999; and between 1996 and 2009, premium rates actually fell by 25 per cent in absolute terms.

Premiums have to increase in the short term to achieve full funding in the longer term. Recognizing this, the WSIB Board of Directors made the decision in 2010 to implement average premium rate increases of two per cent for 2011 and 2012.

Work Reintegration program

After extensive research and review of vocational rehabilitation services and work reintegration interventions around the world, the WSIB successfully started the implementation of a new Work Reintegration program. The new work reintegration model is developing strategies to draw on a range of programs and services that include more involvement for workers and expanded and practical pathways for successful reintegration into the workforce. The model addresses key rights and protection for people with disabilities, responds to the needs of older and vulnerable workers, and incorporates leading practices for success.

The WSIB has hired staff with specialized skills, competent in supporting people with disabilities to re-enter the workforce. During 2010 alone, the WSIB helped over 50,000 injured workers get back on their feet and back to work earning as much as they did before their injuries. We expect the program to produce better outcomes for injured workers.

Health care strategy

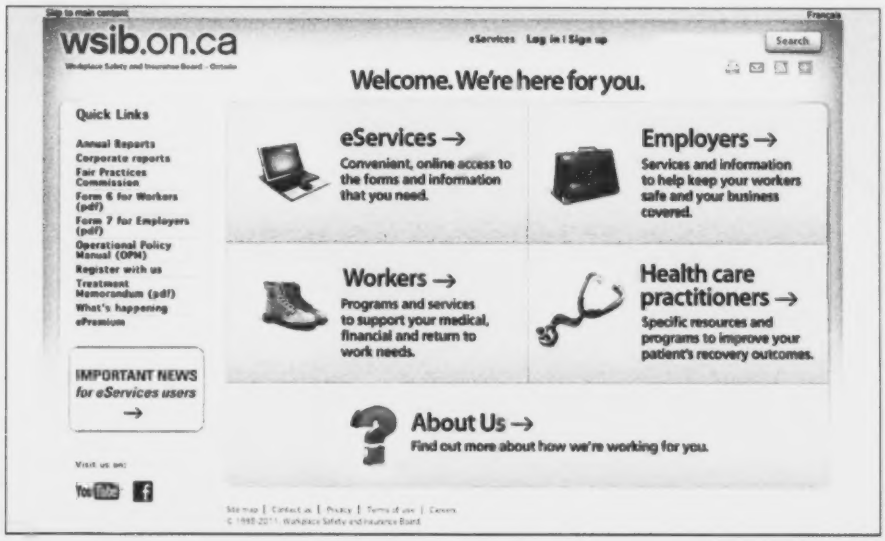
Research has shown that not all time off work is medically required. Some is caused by administrative delays and over medicalization of injuries. In 2010, the WSIB initiated development of a comprehensive health care strategy that uses

early, specialized, evidenced-based care to reduce disability and support work reintegration as an active approach to recovery. The WSIB also introduced a leading narcotics strategy, which is already showing results through earlier intervention. It is also moving to focused care for high-impact claims.

Service delivery

The WSIB receives over 200,000 claims every year; decisions are rendered on 87 per cent of them within two weeks, and 90 per cent of the workers return to work within one year. The WSIB continued to refine its service delivery model in 2010 to improve the way it manages each injured worker's case. The WSIB now has more specialized teams addressing specific areas such as permanent injury cases, long-term case management, and workers who have lost their jobs despite having returned to work after their injury. Decisions are being rendered faster and with more attention to eligibility rules, resulting in better outcomes for workers and less cost to the system.

On the employer side, the WSIB is reviewing every aspect of its incentive programs and is making changes to ensure desired results in injury and illness prevention and work reintegration outcomes.


wsib.on.ca
Welcome. We're here for you.
Quick Links
Annual Reports
Corporate reports
Fair Practices Commission
Form 6 for Workers (pdf)
Form 7 for Employers (pdf)
Operational Policy Manual (OPM)
Register with us
Treatment Memorandum (pdf)
What's happening
ePremium
IMPORTANT NEWS for eServices users
eServices →
Convenient, online access to the forms and information that you need.
Employers →
Services and information to help keep your workers safe and your business covered.
Workers →
Programs and services to support your medical, financial and return to work needs.
Health care practitioners →
Specific resources and programs to improve your patient's recovery outcomes.
About Us →
Find out more about how we're working for you.

New website and Customer Experience Office

In 2010, the WSIB launched its new website, which makes the WSIB more accessible online and supports a range of new and improved eServices. Many of the WSIB's employees received training in Voice of the Customer in 2010 and the WSIB established a Customer Experience Office, an example of our commitment to customer service excellence. Through these and other programs the WSIB is repositioning itself to be more responsive to the needs of its customers.

Business analytics

With the development of the strategy cluster, the WSIB is more focused than ever on enhancing its capability to manage its business effectively and to increase its focus on business measures so that it can fully understand its business drivers and track key performance outcomes. 2010 saw the hiring of a chief statistician to help guide this work.

Summary of results

Results by the end of 2010 represented a good start. By the fourth quarter of 2010, the WSIB had experienced positive financial results, fewer new claims, and better results in claims management while maintaining consistent customer satisfaction. Results are discussed in greater detail on pages 24 to 26 below.

Unfunded liability

As a result of achieving better performance across all indicators, the unfunded liability was lower than projected for 2010. Although the unfunded liability grew from $11,751 to $12,355 million, the funding ratio rose from 54.2 per cent to 54.5 per cent. The reasons for this change are discussed in detail on pages 24 to 26 below.

Revenue

Total revenue, made up of total premium revenue and investment income, was higher than in 2009. Total premium revenue exceeded the previous year's result due to management's success in controlling the costs of employer incentives and bad debt, as well as a rise in employment and average wages, which produced an increase in insurable payroll. Despite an uncertain start in 2010, our investment returns exceeded the long-term target of 7 per cent and achieved a 9.6 per cent return by year-end.

Benefit costs

Benefit costs paid fell in 2010 compared to 2009 for the first time in 11 years. The WSIB received fewer lost-time claims and exercised more stringent application of eligibility rules, reducing the number of paid claims. The inventory of claims was also reduced in size due to shorter duration of lost time. There were fewer workers needing 100 per cent loss-of-earnings replacement, and lower benefit costs for those claims at the statutory six-year lock-in period. Medical costs fell despite expectations that they would continue to rise.

Long-term claims durations, however, continue to be a challenge, and will probably continue to be for the next three to four years as these older claims work their way through the system.

Customer satisfaction remained consistent

The WSIB tracks the number and rate of successful appeals as an indicator of stakeholder trust in the WSIB's decisions. Although the number of appeals increased slightly in 2010, the percentage of decisions upheld improved.

Despite significant changes in our service delivery model and the introduction of more disciplined practices in claims management, the granting of Second Injury Enhancement Fund (SIEF) relief, and changes to employer incentive programs, the 2010 Ipsos Reid survey results suggest there was no significant change in overall customer satisfaction – an indication that the new policies and services are being well received. In 2010, the WSIB's customer satisfaction index indicated 67 per cent of employers and 68 per cent workers expressed satisfaction with the WSIB.

While it has only been a short time since the launch of some of the WSIB's key strategies and initiatives, the organization is already seeing positive results and indications that its plan is on track.

2011-2013 Corporate Business Plan

The WSIB's 2011-2013 Corporate Business Plan sets out the strategic direction and objectives that the WSIB will pursue over the next three years. It provides a range of solutions designed to bring the WSIB to a sufficiently funded position within a reasonable time frame and ensures responsible stewardship and good governance. In executing this plan, the WSIB will address concerns raised in the 2009 Chair's Report on Stakeholder Consultations, in the Ontario Auditor General's 2009 Annual Report, and by the Standing Committee on Public Accounts.

The plan is organized around the following five pillars, each of which represents a guiding principle that will help the WSIB meet its corporate goals.

1. **Sufficient funding: The WSIB will keep its focus on the unfunded liability and strive to reduce it significantly.**
   Currently, the WSIB does not have sufficient funds to cover the future cost of existing claims in the system. Sufficient funding means a fair system for all - secure benefits for workers, stable and competitive premiums for employers, and a solid foundation for service excellence.

   In September 2010, a comprehensive funding review was initiated, led by Professor Harry Arthurs, to consult broadly with stakeholder groups on a range of public-policy issues regarding the financial future of Ontario's workplace insurance system. The year-long review will explore sufficient funding of the Insurance Fund and how best to achieve it, the design of employer incentive programs, and the efficiency of the WSIB's rate group structure and premium rate-setting methodology.

   In support of this objective, the Minister of Labour introduced legislation that would require the WSIB to be sufficiently funded. Bill 135: *Helping Ontario Families and Managing Accountability Act* received Royal Assent on December 8, 2010, and requires the Insurance Fund to be sufficiently funded to enable the WSIB to make payments for current benefits as they come due and to provide for future benefits.

2. **Revenue must cover costs: The WSIB will optimize its premium and investment revenue as critical measures of fiscal health.**
The WSIB has been running annual deficits every year since 2001. Premium revenue has not kept pace with benefit costs, and investment returns have not been able to make up the shortfall. Insufficient revenue to cover annual system costs is a significant contributor to the present level of the unfunded liability. The WSIB will collect premium revenue each year at a level that ensures all required payments can be made as they become due. To move towards this objective, the WSIB's Board of Directors approved modest average premium rate increases of 2 per cent for 2011 and 2012. The WSIB will also continue to manage its Insurance Fund by optimizing returns through investments that are less volatile.

3. **Right-sizing costs: The WSIB will reduce total benefit costs through reducing workplace fatalities, injuries, and illnesses, and promoting early recovery and return to work.**
Benefit costs and the average cost per lost-time injury (LTI) claims have been rising sharply despite the number of LTIs steadily dropping. The best outcome for any injured worker is to return to safe work as soon after injury as possible. Both workplaces and the WSIB have an obligation to assist in return-to-work efforts.

   The WSIB will administer benefits in a fair, consistent, and equitable manner, having due regard to legislation and the needs of each injured worker. The WSIB will support injured workers in return-to-work efforts that will speed rehabilitation and recovery through a new Work Reintegration program, prevent and mitigate the consequences of high-impact injuries, and improve the management of health-care costs. The WSIB will also ensure employer incentives are better aligned with return-to-work goals, are equitably redistributed, and better reflect costs.

4. **Efficient administration: The WSIB will keep administrative costs in line with budgets through increased efficiency.**
The WSIB is responsible for administering the *Workplace Safety and Insurance Act*, along with its operational and revenue policies. Although the WSIB's administration costs compare favourably with those of other jurisdictions, it recognizes and responds to the need for fiscal prudence. The WSIB will operate in as transparent and efficient a manner as possible, and will work to reduce and simplify the administrative burden it places on those who deal with the WSIB.

   The WSIB will ensure that its published data is relevant and informative, and that its policies are up to date and clear. The WSIB's 2010 value-for-money audit will assess the efficiency and effectiveness of its claims administration and adjudication process. The WSIB will also conduct a comprehensive internal policy renewal of existing policies to streamline, update, and repurpose policy development, and will review its corporate data holdings and practices to improve accuracy, relevance, and quality of information used in decision-making.

5. **Stakeholder relationships and service excellence: In every interaction, the WSIB will deliver the best customer service and achieve the highest-ever customer satisfaction.**

   Successful implementation of the 2011-2013 Corporate Business Plan and financial budget requires a response from the WSIB that establishes a foundation of effective relationships with all stakeholders while ensuring the integrity of the WSIB system. Successful implementation also requires a workplace that supports the health, safety, and wellness of each employee. The WSIB's standard will be meaningful consultation, excellence in customer service, consistent and fair decision-making, and robust checks and balances to ensure a high degree of compliance.

   The WSIB will continue to consult regularly with stakeholders on a range of issues that affect their interests, support fair and consistent decision-making based on the principles of service, trust, and integrity, and foster better collaboration and information sharing with key government partners. The WSIB will enhance its constructive stakeholder engagement strategy, roll out a suite of eServices to provide customer service excellence through all channels of engagement, and develop a strategy to encourage compliance with workplace insurance legislation.

   Internally, the WSIB will pursue Level 3 healthy workplace certification as part of the Progressive Excellence program with the National Quality Institute to demonstrate its commitment to staff health and wellness.

The way forward

Positioned for success

The WSIB already has a comprehensive, flexible, yet cost-effective approach to addressing the challenges it faces. Its 2011-2013 Corporate Business Plan has established the framework for meeting key objectives through strategies and programs that will ultimately improve the WSIB's financial position, reduce the unfunded liability, and sustain the value of the WSIB to workers, employers, and Ontario's economy. The results necessary for success in the future are already being seen.

Delivering what matters

The WSIB is demonstrating a stronger and sharper focus on understanding and delivering what really matters to customers, built on the understanding that reintegration in the workforce is the best outcome. Understanding this also means rigour and discipline in our approach – to deliver fair benefits and services that are cost-effective and achieve results.

The WSIB recognizes that it needs to meet growing stakeholder expectations of fast, accessible, and effective service. It has already begun the change with the introduction of new eServices, and is committed to significantly improving levels of service in the coming years.

Integrity, trust, and fairness

The WSIB will demonstrate it can take charge of its business and manage with rigour and discipline and act with integrity and fairness. Working transparently, the WSIB will build trust and confidence that the workplace insurance system can continue to deliver value – to protect workers and their families from financial burden and to allow employers to focus on growing Ontario's businesses.

With its stakeholders, the WSIB will continue the evolution of workplace compensation insurance to meet its challenges while balancing benefits, coverage, and financing to ensure the long-term viability of the system. Changing course after more than 30 years of inadequate funding and a variety of practices and policies that have not delivered optimal results, either for injured workers or employers, will take time before beginning to show consistent results.

The WSIB plays an incredibly important role in the whole area of industrial productivity and worker protection in Ontario. Every year, thousands of workers get injured in the workplace and must be supported. This costs employers billions of dollars, and workers find their lives disrupted and changed. It is in the interests of all stakeholders – employers, workers, the government, and the WSIB – to take ownership of the system of workplace insurance and ensure that it delivers the best results possible.

Board of directors and committees

The members of the WSIB Board of Directors have a diverse range of skills and understanding, reflecting their experience across many business and industry sectors.

Committees of the Board of Directors

The **Audit and Finance Committee** advises on financial and other reporting practices and internal controls.

The **Health and Safety Committee** advises on workplace health and safety policies, performance objectives, and measurement criteria.

The **Human Resources and Compensation Committee** advises on the health and safety of WSIB employees and the human resources function.

The **Governance and Policy Committee** advises on governance and policy matters.

The **Investment Committee** provides counsel on investment policy, monitors investment returns, and reviews the performance of investment managers and their compliance with applicable laws and regulations, and their respective mandates. (The committee includes external advisors Maureen Farrow, Don Walcot, and Paul Grise.)

Steven W. Mahoney
Chair: May 17, 2006 – May 16, 2011

I. David Marshall
President and CEO: January 24, 2010 – January 23, 2015
Investment Committee, Governance Committee

Lawrence R. Barnett
Member: January 15, 2007 – January 14, 2013
Health and Safety Committee (Chair), Human Resources and Compensation Committee

Estelle M. Caines
Member: November 18, 2009 – November 17, 2012
Human Resources and Compensation Committee

Patrick Dillon
Member: July 17, 1996 – July 16, 2010
Health and Safety Committee, Governance Committee, Human Resources and Compensation Committee (Chair)

Louis Girard
Member: January 28, 2009 – January 27, 2012
Audit and Finance Committee, Health and Safety Committee, Human Resources and Compensation Committee

P. Morgan McCague
Member: August 21, 2008 – August 20, 2011
Audit and Finance Committee, Investment Committee (Chair), Human Resources and Compensation Committee

Marlene McGrath
Member: October 14, 2004 – October 13, 2013
Audit and Finance Committee (Chair), Investment Committee

Lea M. Ray
Member: December 3, 2008 – December 2, 2011
Health and Safety Committee, Investment Committee, Governance Committee (Chair)

Sari Sairanen
Member: September 24, 2008 – September 23, 2011
Health and Safety Committee, Governance Committee

Management's discussion and analysis

Statement of management's responsibility

Management's discussion and analysis (MD&A) provides management's perspective on key issues that impact the current and future financial condition and operating results of the WSIB for the year ended December 31, 2010. This discussion should be read in conjunction with the audited consolidated financial statements and accompanying notes, which are prepared in accordance with Canadian generally accepted accounting principles (GAAP). The WSIB also uses certain non-GAAP measures to track its performance, some of which will be discussed in this report. Information presented is as of December 31, 2010, unless otherwise indicated. When information as of December 31, 2010, is not available, information for the latest period before December 31, 2010, is used.

The information in the MD&A necessarily includes amounts based on informed judgments and estimates. Forward-looking statements contained in this discussion represent management's expectations, estimates, and projections regarding future events based on the information currently available, involving assumptions, inherent risks, and uncertainties. Readers are cautioned that actual results in the future may differ materially from projections in cases in which future events and circumstances do not occur as expected.

Role of the Board of Directors

The WSIB Board of Directors acts in a financially responsible and accountable manner in exercising its powers and performing its duties. The responsibility of the Board of Directors in relation to the reporting of financial statements is to ensure that the financial information reported by management in the Annual Report and elsewhere reasonably reflects the financial condition, results of operations, plans, and long-term commitments of the WSIB, as well as appropriate risk-mitigation strategies, effective functioning of the internal audit system, and effective conduct of the external audits. The Board is also responsible for providing the Ontario Minister of Labour with the following documents annually: A current strategic plan, an annual budget and business plan, an annual statement of investment policies and procedures, an annual report, and an annual value-for-money audit.

Role of the Audit and Finance Committee

The role of the Audit and Finance Committee is to provide assistance to the Board of Directors in carrying out its oversight responsibilities related to the WSIB's financial reporting practices, systems of internal control, and risk management; its performance, independence, and the qualifications of its internal and external auditors; as well as compliance with policies related to financial reporting obligations that may apply to the WSIB.

Accounting changes for 2010

To provide more information, a modification was made to the reporting of investments on the consolidated balance sheet. Receivables and payables relating to the unsettled investment transactions are now reported separately.

About the WSIB

Ontario's WSIB promotes workplace health and safety and provides a workplace insurance system for Ontario employers and workers. The WSIB is a statutory corporation responsible for administering the *Workplace Safety and Insurance Act (Ontario), 1997*. The *Workplace Safety and Insurance Act* establishes a no-fault insurance scheme that provides benefits to workers who experience workplace injuries or contract occupational diseases. This system of collective liability provides fair compensation for injured workers and their families, while spreading individual costs among employers. As in other insurance frameworks, high-risk industries with more claims costs pay higher premium rates. The WSIB is funded entirely by employer premiums and does not receive any funding from the Government of Ontario.

The WSIB maintains an Insurance Fund to cover future obligations in relation to existing claims. The return on investment of the Insurance Fund is an integral part of the overall funding of WSIB benefits. Premiums collected by the WSIB are used to fund injured workers' benefits, other operating costs, and legislated obligations and commitments, including the operating costs of Health and Safety Associations, the Workers Health and Safety Centre, and the Occupational Health Clinics for Ontario Workers. The WSIB is also required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*, as well as to provide funding for the Workplace Safety and Insurance Appeals Tribunal, the Offices of the Worker and Employer Advisers, and the Fair Practices Commission.

Corporate strategy

Following careful analysis of key drivers of its unfunded liability, the WSIB has developed a multi-year business plan to address insufficient premium revenue, declining investment returns, and rising claims and health-care costs. The 2011-2013 Corporate Business Plan sets out the WSIB's strategic direction and provides a range of solutions to bring Ontario towards a sufficiently funded workplace insurance system. Actions will address concerns raised in the 2009 Chair's Report on Stakeholder Consultations; the Ontario Auditor General's 2009 Annual Report; and by the Standing Committee on Public Accounts.

The 2011-2013 Corporate Business Plan is organized around the following five strategic pillars:

I. Sufficient funding: The WSIB will keep its focus on the unfunded liability and strive to reduce it significantly.

II. Revenue must cover costs: The WSIB will optimize its premium and investment revenue as critical measures of fiscal health.

III. Right-sizing costs: The WSIB will reduce total benefit costs through reducing workplace fatalities, injuries, and illnesses, and promoting early recovery and return to work.

IV. Efficient administration: The WSIB will keep administrative costs in line with budgets through increased efficiency.

V. Stakeholder relationships and service excellence: In every interaction, the WSIB will deliver the best customer service and the goal is to achieve the highest-ever customer satisfaction.

Factors that may affect results

As noted in the "statement of management's responsibility" section, all forward-looking statements and information, by their very nature, are subject to inherent risks and uncertainties, both general and specific, which may cause actual results to differ materially from expectations. Some of these risks and uncertainties are discussed in this section.

The economy and labour market conditions

Factors such as employment levels, wage rates, business investment, foreign exchange rates, structural composition of industries, and the health of capital markets affect the WSIB's business environment. With a slower than expected economic recovery, the WSIB could experience lower premium revenue growth. A change in Ontario's employment base is a key determinant of premium revenue, as they are directly impacted by the number of employees working in WSIB-covered industries. Declining employment levels serve to reduce insurable payrolls, thereby directly impacting premiums collected by the WSIB.

Downturns in financial markets may impair the WSIB's ability to maintain investment returns at its long-term target rate of 7 per cent, which negatively impacts the WSIB's unfunded liability. Some investment risk cannot be directly controlled, such as significant market swings, geopolitical events, and interest rate changes driven by international monetary, fiscal, and trade policies.

Increasing prevalence of occupational disease claims

Known and emerging occupational diseases continue to challenge the WSIB. These claims currently represent about 10 per cent of the WSIB's total claims costs. The proportion has been growing in recent years (up from 6 per cent in 2000) and is expected to continue to grow. Over the last decade, the number of registered occupational disease claims has almost doubled. Claims for asbestosis, asthma, work-related cancers, chronic obstructive pulmonary disease, and hand-arm vibration syndrome have all increased. Most notably, claims for noise-induced hearing loss have increased significantly since 2000.

This increase in occupational disease claims is expected to continue. Many diseases have long latency periods and, as such, diseases diagnosed today are the result of workplace exposure to hazardous substances in past decades. Medical and scientific studies are discovering new connections between disease development and agents found in the workplace. Treating physicians and workplace parties are becoming increasingly aware of potential hazards and their connection to illness. A significant portion of occupational diseases go unreported.

Occupational disease claim numbers are expected to continue to increase, and uncertainty regarding the risk and nature of these workplace diseases remains. Costs will continue to grow, and are often difficult to predict, as new exposure clusters emerge. In 2010, the WSIB increased its provision for occupational disease claims by $600 million to provide for future occupational disease claims that have not yet been incurred.

Major events and reviews impacting the WSIB

In 2010, the Ministry of Labour convened an expert advisory panel on Occupational Health and Safety led by Tony Dean, a distinguished former secretary to the cabinet. The panel's recommendations, which were accepted by the Government, included moving the responsibility for managing the workplace prevention function from the WSIB to the Ministry of Labour. This transition will happen over the next 12 to 24 months. It will have the effect of concentrating the WSIB on its insurance function and significantly reducing, although not entirely eliminating, its involvement with prevention activities.

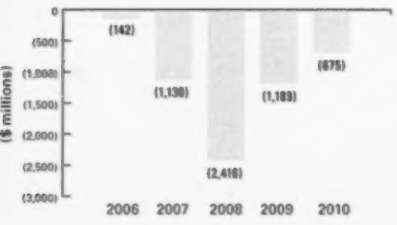
Also in 2010, the government passed Bill 135: *Helping Ontario Families and Managing Accountability Act*. This bill, which received royal assent on December 8, 2010, introduces changes to the *Workplace Safety and Insurance Act, 1997* requiring the WSIB to define the level of funding that would constitute sufficient funding for its Insurance Fund and to create and implement plans to reach and maintain sufficient funding.

Finally, two major activities with potentially long-lasting impacts on the WSIB were initiated. The first is a comprehensive funding review led by Harry Arthurs. This review will consult experts and stakeholders and advise the WSIB and the government on several key structural issues affecting the WSIB. For example, what level of funding should be considered to be sufficient funding for the WSIB's Insurance Fund? How soon should WSIB attempt to reach this level? Are the current employer incentives, rate structure, and premium-setting process appropriate, transparent, and fair? The review will also look at how best to allocate the growing costs of occupational disease claims and whether the formula for providing inflation protection to partially disabled workers needs to change.

The second review is a value-for-money audit being conducted by the firm of KPMG under the auspices of the Auditor General. This audit will report on the effectiveness and efficiency of the claims administration and adjudication process at the WSIB.

2010 financial performance at a glance

Excess of expenses over revenues



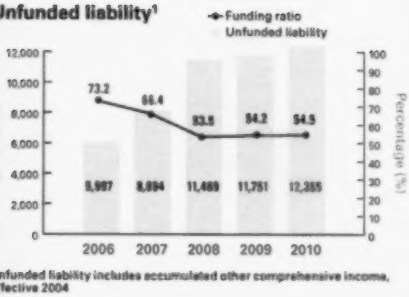
The WSIB's annual operating deficit fell to $675 million from $1,189 million in 2009. While this is a significant improvement year over year, the existence of a large operating deficit signals that premium revenue combined with investment revenue are insufficient to cover costs. Having said that, the WSIB made important gains in the control of costs during 2010 without any reduction in legislated benefit levels. Benefit costs for the year, excluding actuarial assumption adjustments to benefits liabilities, fell by $503 million from the previous year. This was the first time in 11 years that benefit costs paid had fallen year over year. We discuss this in more detail below.

In 2010, employers saw a two per cent increase in the average published premium rate. Premium revenue increased by $195 million, which reflects an overall increase in insurable payroll and the increase in the average premium rate. However, the average premium rate collected was only $2.27 compared with the planned rate of $2.30. This was due partly to a reduction in insurable payroll in 2010 from expected levels and partly due to a change in the mix of industries, with rate groups such as Automotive and Manufacturing declining. Manufacturing payroll fell short of expectation in 2010, while most other sectors increased. Overall, Ontario has one of the highest premium rates in the country. However, based on premiums to cover the full costs of new claims, Ontario is quite competitive, with only Alberta having a lower rate for new claims costs in the past few years. The Ontario premium rate is higher than most due to the addition of a premium component to fund the unfunded liability (UFL), generated by years of past premiums not covering the full costs of the system. The premiums for the UFL are to be allocated to the reduction of the UFL. However, in years in which expenses exceed revenues, these premiums are applied to benefit costs incurred in the year.

Employer incentives, which impose surcharges for poor claims experience and rebates for good claims experience, came more into balance this year. Over the past 16 years, refunds exceeded surcharges by an annual average of $156 million, which has added to the UFL. In 2009, this imbalance was reduced to $37 million, and in 2010 it was further reduced to $20 million. This reflects a continuing emphasis by management to ensure that employer qualifications for rebates and surcharges are being carefully managed.

Investment revenue did well, returning 9.6 per cent on assets. This followed the even stronger 2009 year, when returns were 13 per cent. In 2010, realized investment gains were much higher than in 2009 due to the need to realize investments in public equities and redirect them to infrastructure. This is part of a long-term shift in our statement of investment policies and procedures, which calls for an investment mix with less public equity and more infrastructure in order to reduce volatility.

Unfunded liability[1]



[1] Unfunded liability includes accumulated other comprehensive income, effective 2004

The net present value of the liability for future benefits payments increased by a net of $1,100 million from $23,250 million to $24,350 million. This was due to three factors: Increasing duration of long-term loss-of-earnings claims, increases in provision for the longevity of claimants, and increases in the expectation of greater costs for occupational disease claims arising from employment. These additional provisions were offset by improvements in the management of more recent claims and the retiring of old claims from the inventory. A detailed explanation of the change in the benefits liability is shown in notes 11 and 12. At the same time, the value of investments in the Insurance Fund increased from

$12,775 million to $13,360 million. As a result, the UFL grew year over year by $604 million from $11,751 million to $12,355 million, and the funding ratio improved slightly. The WSIB expects that the UFL - which had almost doubled since 2006, absent any changes to the discount rate being used - has stabilized.

Benefit costs – the main component of the Insurance Fund cost

Benefit costs, on a comparable basis, excluding actuarial assumption adjustments to the benefit liability, fell by some $503 million in 2010 compared to 2009. As stated earlier, this was achieved without any reduction in legislated benefits. In 2010, fewer lost-time claims came into the system from employers and the WSIB exercised more stringent application of eligibility rules. This had the combined effect of reducing the number of paid claims entering the system by 9 per cent year over year. In 2009, 7.9 per cent of registered lost-time claims did not meet eligibility criteria, in 2010, this rate increased to 11.3 per cent.

Also in 2010, more injured workers receiving benefits were assisted in getting back to work or not requiring assistance, resulting in a drop in the number of workers still on claim 30 days, 60 days, and up to two years after injury. As well, a combination of efforts by workers, employers, and the WSIB has resulted in 27.6 per cent fewer workers needing the full, permanent 100 per cent loss-of-earnings replacement compared with 2009. In 2010, these factors resulted in a reduction of actual payments of $121 million, a reduction of $386 million in future liabilities for paying benefits, and an increase in claims administration expenses of $4 million, resulting in the $503 million reduction referenced above.

Two other management actions also resulted in lower costs in 2010. There was better management of medical costs, which saw medical costs actually drop by $17 million year over year against an expectation that they would continue to rise by 6.5 per cent. As well, improved return-to-work efforts to assist workers on long-term benefits (through specialized roles such as Long-Term Case Managers and Return to Work Specialists) resulted in lower benefit costs being locked in at the statutory six-year lock-in period for benefits for workers that had reached this stage. As a result, the average annual benefit payment to workers being locked in at the statutory six-year mark in 2010 was $15,624. This compares to the average payment of $21,144 for the pool of locked-in benefits per worker for all previous years.

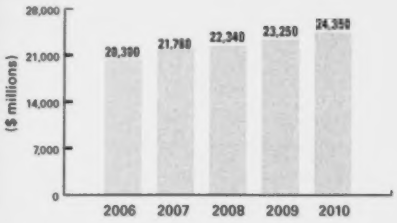
Change in benefit liabilities

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims and the costs of administering these claims in the future. The calculation is guided by a number of assumptions and variables as detailed in note 11 of the 2010 annual financial statements. These assumptions may change over time to reflect underlying conditions and it is possible that such changes could cause a material change in the actuarial present value of future benefit payments.

While current claims – injuries that have occurred two years ago or less – are being more carefully managed to improve return-to-work outcomes, claims remaining on our books for injuries incurred more than two years ago continued to demonstrate greater propensity to need continuing assistance. This has resulted in an increase in the length of time (referred to as "duration") that older claims remain in the system. We expect this trend to continue for the next three to four years, as older claims that did not receive the same degree of attention as they should have, work their way through the system.

We have observed rising levels of the following predictors of duration in claims originating in the years 2004-2008: Increasing percentage of claims with

Benefit liabilities



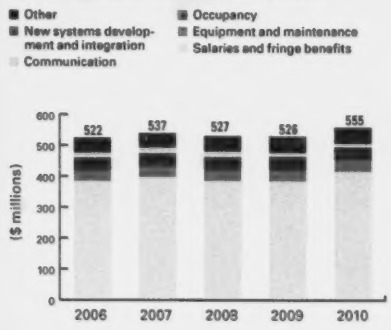
permanent impairments and those with more serious injuries, increasing age of workers being injured, and an increasing number of claims being reopened due to the workers losing their jobs after having successfully gone back to work at least once. In any year, the more claims that relate to older workers, workers with permanent impairments, and injured workers who have lost their jobs despite having gone back to work, the more expensive and difficult it is, and the longer it takes to help these workers get back on their feet and back to work. Consequently, we have increased the future liability for the cost of paying future benefits to these claimants by $593 million. We expect the trend of greater duration to moderate and improve as the more recent claims, in which newer processes are being applied, move through the system.

We also increased the liability for future benefits by $200 million due to the increasing longevity of workers, and we have increased the provision for future occupational disease claims by $600 million to take into account the increasing trend in number of claims for occupational disease hazards, such as cancers. The total provision for future occupational disease claims, which form part of the WSIB's overall benefits liability of $24,350 million, now stands at $2.1 billion or about 10 per cent. This percentage has been growing steadily in recent years.

A more detailed accounting of the increases and decreases in the benefit liabilities is provided in notes 11 and 12 to the financial statements. Based on information currently available, we expect that these additional provisions for future liabilities will sufficiently reflect the actual needs of the Insurance Fund over the next several years.

Administrative and other expenses

Administrative and other expenses



These expenses show an increase of $29 million compared with 2009, although excluding this increase for the discount rate noted below, administration expenses actually decreased by $3 million year over year. This is mainly due to the following two factors:

- Bringing return-to-work services in-house resulted in a change in accounting. Outsourced claims administration had been added to and shown under benefit expense, whereas when brought in-house these costs are shown as administrative expense. On a comparable basis, administrative expense to administer claims actually dropped year over year.
- Staff benefits expense increased due to a change in the discount rate from 7 per cent to 5.75 per cent to value future employee benefit expense. This had the effect of increasing the present value of these costs by $32 million.

Legislated obligations and commitments

The WSIB is required by legislation to fund the administration of various related organizations, such as the Health and Safety Associations, the Office of the Worker Adviser, the Office of the Employer Adviser, the Workplace Safety and Insurance Appeals Tribunal, and programs under the *Occupational Health and Safety Act.*

The Ministry of Labour is responsible for providing stakeholders and employers with information related to how the funding provided by the WSIB has been used to generate value in the system, as this funding represents nine cents (3.9 per cent) of our 2010 average published premium rate of $2.30.

Total legislative obligations and commitments of $227 million remained unchanged in 2010. In 2010, 12 Health and Safety Associations were streamlined into four Health and Safety organizations. The realignment will result in more innovative and cost-effective health and safety solutions being provided to Ontario workplaces.

Outlook

Significant risks remain

In 2011, it is expected that the global economy will continue on a path of slow and gradual recovery. While fiscal and monetary relief has started and sustained the recovery in the U.S. and Canada, significant risks remain in the global economic system, causing the forecasting environment to remain uncertain.

The improvement in the Ontario economy that began in the spring of 2009 is likely to sustain its tentative pace, gaining momentum through a slowly improving job market, growing incomes, and a better investment environment. Specific risks to the forecast include inflationary pressures from global commodity markets, the outlook and recovery of the U.S. economy, and the continuing high value of the Canadian dollar.

Positioned for success

The changes the WSIB has already begun carry the seeds of a comprehensive and flexible yet cost-effective approach to address these challenges.

The WSIB's new Work Reintegration program has recognized the importance of focusing on the needs of each worker in preparing for return to work. The program has adopted approaches designed to improve return-to-work outcomes, including working more closely with the employer to find other opportunities for return to work when the pre-injury job cannot be accommodated, providing for worker choice and input into retraining strategies to foster involvement and commitment, developing strategies to respond to the needs of older and vulnerable workers, and offering flexible yet practical retraining that draws on the broad range of programs and services available in Ontario.

The WSIB's health care strategy will be bringing early, specialized, evidence-based care to the issue of reducing disability and supporting return to work as an active approach to recovery.

New entitlement and case-management approaches recognize the importance of bringing more specialized knowledge to the different aspects of a claim. "One size fits all" is no longer the approach that will meet workers' needs. More specialized teams with more Work Reintegration specialists (some 200 were added in 2010) will provide more focused, knowledgeable support to both workers and employers to respond to their unique needs and circumstances.

To support staff in delivering flexible and adaptive services, the WSIB is adding new systems capability in case management and an expanded set of eServices that will enable more efficient, responsive, and accessible services.

Delivering what really matters

As the WSIB continues to develop its services, it will continue to incorporate the best evidence available to deliver services that are fair and achieve results. It will bring a stronger and sharper focus to understanding and delivering what really matters to its customers, and build on the understanding that returning to work is the best outcome for all.

Enterprise risk management

Risk is present in all aspects of the operation of a complex organization such as the WSIB. Thus, making risk management a priority is not only essential for our success but also required as part of good governance and fulfilling our responsibilities to stakeholders through a diligent execution of our mandate. The WSIB defines risks as events or conditions that may prevent the organization from achieving its strategic and key business objectives. The WSIB's risk-management approach is integrated, future-focused, and process-oriented to assist the WSIB in managing key business risks and opportunities with the intent of maximizing value for the enterprise as a whole.

The WSIB has implemented an integrated enterprise risk management framework, including policies and procedures that formally identify, assess, manage, and report on risks. Enterprise risk management is a structured and disciplined approach aligning strategy, processes, people, technology, and knowledge with the purpose of evaluating and managing the uncertainties the enterprise faces as it creates value. The WSIB's objective is to limit exposure to undue risk. Risk-management plans are embedded into the WSIB's strategic and business unit plans.

Risk planning is integrated into the annual business planning cycle. Risk planning involves discovery and assessment of risks, as well as ensuring that appropriate mitigating strategies are incorporated into the plan to increase the probability of success.

The WSIB's risk-identification system has both the rigour and the flexibility to deal with constant changes in the environment in which the WSIB operates. Risk identification is a continuous process. Enterprise wide risks are reviewed and updated on at least an annual basis to reflect the key risks that must be managed and changes in the organization's risk profile.

Accounting matters

Interim financial statements

In the interest of openness and transparency and in order to be responsible to stakeholders in this volatile economic climate, the WSIB began releasing unaudited interim financial results on a quarterly basis beginning with the results of the fourth quarter of 2008. Interim financial reporting supplements the annual report by conveying financial progress on a more regular and timely basis.

As well as producing more frequent updates on the financial results, interim statements help strengthen accountability and increase transparency and oversight of the WSIB's operations. In these uncertain times, clear communication of the WSIB's ability to continue to meet its financial obligations is particularly important.

Future changes in accounting policies

International financial reporting standards (IFRS)

In 2011, the WSIB is planning to adopt a significant change to its accounting policies. The following paragraphs summarize the significant future changes to our financial reporting.

International Financial Reporting Standards (IFRS) are a single set of globally accepted financial reporting accounting standards issued by the International Accounting Standards Board (IASB). Canadian generally accepted accounting principles (GAAP) are to be the equivalent of IFRS for publicly accountable enterprises. The Canadian Accounting Standards Board (AcSB) has confirmed that the changeover date for the adoption of IFRS will be January 1, 2011. The WSIB has determined that IFRS best meets its reporting obligations to its stakeholders. Beginning in 2011, the WSIB's financial statements will be prepared on an IFRS basis, with the first such interim financial statements issued to stakeholders for the three-month period ending March 31, 2011. The WSIB's first IFRS financial statements will restate 2010 financial results based on IFRS to provide comparative information for users. Adopting IFRS is expected to increase the unfunded liability by a net amount of $189 million.

IFRS are premised on a conceptual framework similar to Canadian GAAP, however, significant differences exist in certain matters of recognition, measurement, and disclosure. The WSIB's adoption of IFRS will be impacted by IFRS 1: First-time Adoption of International Financial Reporting Standards elections and by our ongoing policy choices post-transition. Significant areas of difference from Canadian GAAP include the revaluation of property and equipment and investment property, employee benefits, and the designation of previously recognized financial instruments.

The WSIB's adoption of IFRS will require the application of IFRS 1, which provides guidance to an entity on the preparation of its first IFRS statements. The WSIB will apply fair value to its significant assets currently valued at amortized cost. The land and building at the WSIB's head office located in downtown Toronto will be revalued from amortized cost (cost less accumulated depreciation) to fair value beginning January 1, 2010. The revaluation will decrease the unfunded liability by an estimated $104 million. In 2010, the WSIB owned 14 subsidiary companies mainly consisting of real estate entities. With IFRS standards, these subsidiary companies are classified as investment property. Under GAAP, any unrealized gains and losses are reflected in other comprehensive income; under IFRS, these unrealized gains and losses will now be included as part of investment revenue. There will be no impact to the unfunded liability.

As of January 1, 2010, all unrecognized actuarial gains and losses that arose since the inception of WSIB employee benefit plans will be recognized directly in the unfunded liability. This change will be reflected as an adjustment to the opening balance for employee benefit plans for January 1, 2010, and is expected to increase the unfunded liability by $293 million.

Under IFRS 1, the designation of the majority of our financial instruments will change. This change will not impact the unfunded liability. Similar to investment property, unrealized gains and losses will now be reflected in investment revenue rather than in other comprehensive income.

Post-IFRS transition changes include applying IAS 40: Investment Property to the WSIB subsidiaries; there is no equivalent standard in GAAP. Investment property will be recorded at fair value. This option allows for the consistent application of valuation methods used for WSIB investments. Similar to equity investments, regular valuations will increase the volatility of reported results. New categories will be disclosed on the face of the financial statements for the user to distinguish investment property from those investments in which the WSIB has significant influence – that is, between 20 and 50 per cent ownership.

In addition, under IFRS, property and equipment is required to be separated into significant units and depreciated over each item's expected useful life. Simcoe Place, which is reported under property, equipment, and other assets, has significant parts that must be accounted for as separate units and depreciated accordingly. Other significant impacts from IFRS are the additional financial statement disclosures required.

Accounting standards continue to evolve and, as such, it is important to assess the impact these changes may have on the WSIB's future financial results. The IASB, for instance, is in the process of developing an accounting standard for insurance contracts that could require such contracts to be accounted for at fair value. The matter continues to be under review and no impact is expected on the WSIB's financial statements until the final standard becomes effective, which is likely to be in 2015.

2010 financial performance – additional detail:

Revenue

Premium revenue

The following provides additional relevant details on a number of the components discussed in the "2010 financial performance at a glance" section for those who may find the additional information useful.

Premium revenue mostly consists of assessments received from ratable employers and, to a much lesser extent, from self-insured employers. Ratable premium revenue is derived primarily from total insurable payrolls of employers multiplied by their appropriate premium rate. Schedule 1 employers have a component built into their premium rate that contributes towards paying down the unfunded liability.

In 2010, total premium revenue was $3,735 million compared with $3,540 million in 2009, an increase of $195 million. A breakdown of the components comprising the premium revenue along with the changes is provided below:

Premium revenue for years ended December 31

($ millions)	2010	2009	Increase/(Decrease)	
Schedule 1 (collective liability)				
Gross premiums assessed	3,413	3,248	165	5.1%
Experience rating net refunds	(20)	(37)	17	(46.0)%
Interest, penalties, bad debts, & other expenses	(22)	(41)	19	(46.3)%
Schedule 1 net premiums	**3,371**	**3,170**	**201**	**6.3%**
Schedule 2 (self-insurers) Reimbursements of claims costs paid	307	315	(8)	(2.5)%
Administration expenses	58	56	2	3.6%
Interest, penalties, less bad debts	(1)	(1)	0	0.0%
Schedule 2 total premiums	**364**	**370**	**(6)**	**(1.6)%**
Total net premium Schedule 1 and 2	**3,735**	**3,540**	**195**	**5.5%**
Premiums for the year	2,835	2,533	302	11.9%
Premiums for the unfunded liability	900	1,007	(107)	(10.6)%
Total premium revenue	**3,735**	**3,540**	**195**	**5.5%**

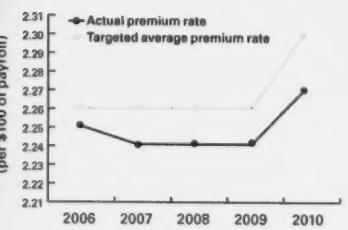
Gross premiums increased by $165 million related to growth in the insurable payroll, impacting premiums by $120 million, and the changes to the employer premium rates in 2010 impacted premiums by $45 million.

During 2010, insurable payroll grew by $5,396 million to $150,306 million (2009: $144,910 million), or 3.7 per cent. Most sectors experienced increases as employment growth was 1.2 per cent overall while average wages grew by 2.5 per cent. Services, Construction and Health Care were the sectors largely contributing to the increases in insurable payroll. The high Canadian dollar continued to impact the Manufacturing sector by hindering exports, while government spending in Health Care kept this sector's employment flat compared with the prior year.

The average published premium rate increased from $2.26 per $100 of insurable payroll in 2009 to $2.30 per $100 of insurable payroll for 2010. Premium rate increases are necessary, along with action from within the WSIB, to slow the growth of the WSIB's unfunded liability and ensure premium revenue covers the full cost of benefits for injured workers. Between 1996 and 2009, premium rates have actually fallen by 25 per cent in absolute terms.

Over the past five years, the WISB's actual premium rate collected has been less than the average published premium rate. The average published premium rate is the weighted average of each rate group's premium rate and the rate group's projected insurable payroll. It is used by the WSIB (and other boards) as an indicator of whether overall premium rates are holding steady or trending up or down. Employers calculate and pay premiums based on their individual premium rate, and only in rare instances is an employer's rate the same as the average published premium rate. After the close of a year, the actual premium rate is determined simply as premium revenue divided by reported insurable payroll. As reported payrolls change from year to year and among rate groups, the actual premium rate can be different than the original average published rate. In addition, adjustments to premium rates under the Merit Adjusted Premium plan affect the amount of premium revenue collected from employers. For example, in 2010 the average published premium rate of $2.30 was reduced to the actual collected rate of $2.27. The reductions in 2010 reported payrolls for employers with premium rates higher than the average $2.30, and the net impact of premium adjustments had the effect of reducing the average published premium rate to the actual collected rate of $2.27.

Five-year history of actual premium rates compared to target average premium rates



Five-year history of actual premium rate compared with reported average premium rates

	2010	2009	2008	2007	2006
Actual collected premium rate (per $100 of payroll)	2.27	2.24	2.24	2.24	2.25
Average published premium rate reported (per $100 of payroll)	2.30	2.26	2.26	2.26	2.26

To create stable and competitive premium rates for the future, the WSIB's Board of Directors made the decision to implement average rate increases of 2 per cent for 2011 and 2012, raising the average published rate to $2.35 in 2011 and $2.40 in 2012. In 2011, almost half of registered employers will see no premium rate increase, while other employers with a history of costly injuries claims will see increases of more than 2 per cent. The increase to the average premium rate is part of the WSIB's 2011-2013 Corporate Business Plan.

Experience rating net refunds of $20 million were lower in 2010, compared with $37 million in 2009, mainly due to Second Injury and Enhancement Fund (SIEF) practice changes that resulted in fewer claims being approved for the SIEF program. Claims experience continued to worsen - specifically in increased duration for the longer-term claims and worsening performance in the Safety Groups.

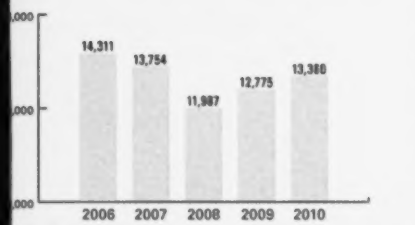
Bad debts in 2010 were $56 million compared with $86 million in 2009, for a decrease of $30 million. The lower bad debts in 2010 reflects some improvement in the economy. Bad debts mainly arose in the Construction, Services, and Transportation industry sectors and were primarily due to business bankruptcies and closures.

Premium revenue for self-insured employers (Schedule 2) reflects both a recovery of claim costs paid on behalf of these employers and an allocation of administration costs to manage the claims from their injured workers. Premiums for self-insured employers were $364 million (2009: $370 million), or $6 million lower, mainly as a result of lower claims durations for short-term claims, lower number of new claims entering the system, and the natural reductions and closures of pre-Bill 99 claims related to mortality and reaching age 65.

Investment revenue

The WSIB's investments are held in three separate funds – an Insurance Fund to meet future benefit payments to injured workers, a Loss of Retirement Income (LRI) Fund to provide this benefit for injured workers who qualify under this program, and an Employee Pension Plan Fund. These investments are currently diversified among five primary asset classes: fixed income, public equities, private real estate, alternative investments, and infrastructure. The carrying value of the Insurance and LRI funds' investments at December 31, 2010, was $13,360 million after transfers totalling $589 million to fund benefit payments to injured workers. This is an increase of $585 million from the $12,775 million carrying value at the end of 2009.

WSIB's carrying value of investments[2]



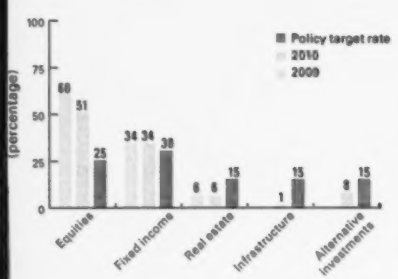
[2] Effective 2009, WSIB investment CV = investments + receivables - payables

In 2010, the WSIB's realized investment revenue was $1,003 million (2009: $615 million), which was $388 million higher than in 2009. Investment revenue includes interest and dividends received and realized gains or losses on sales made in the year. Gains and losses on investments that were not sold during 2010 are reflected in other comprehensive income.

Total investment income was $1,070 million in 2010 compared with $1,522 million in 2009 (including unrealized market value gains/(losses) reported under other comprehensive income). Realized investment income increased by $388 million to $1,003 million (2009: $615 million). This increase was due to the WSIB restructuring a number of equity portfolios as it continued to implement its revised strategic investment plan. As a result, gains that previously would have been unrealized equity gains became realized gains in 2010. Unrealized gains decreased by $840 million to $67 million (2009: $907 million) due to this portfolio restructuring as well as to the lower market return of 9.6 per cent on the Insurance Fund compared with 13 per cent in 2009.

The following table shows the total compounded annual returns for the Insurance Fund as at December 31 over one-, five-, 10- and 15-year periods:

Actual asset mix of investments



Insurance Fund Total Returns (in Canadian Dollars)

	1 year	5 years	10 years	15 years
as of December 31, 2010	9.6%	3.9%	4.2%	7.0%
as of December 31, 2009	13.0%	4.0%	4.1%	7.6%

In 2008, WSIB began implementing a five-year strategic investment plan (SIP) to reduce further the volatility of investment returns. The SIP seeks further diversification by adding infrastructure and alternative investment strategies to fixed income, public equities and private real estate. The Insurance Fund's current asset allocation to the real estate, alternative investments and infrastructure categories is below the target allocation. A phased approach

will be used to increase the Insurance Fund's allocation to those categories over time, with a reduction in the allocation to public equities and fixed income. The WSIB will also employ enhanced oversight and monitoring processes commensurate with the additional complexity of the strategy.

Expenses

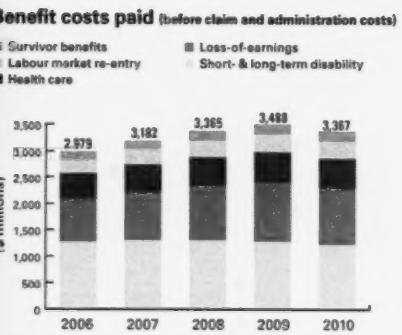
Benefit costs

Benefit costs consist of benefit costs paid and the change in the actuarial value of benefit liabilities, which is the adjustment to the actuarially determined estimates for future claim costs for current- and prior-year claims. Benefit costs also include the related claim administration costs that are reclassified from administrative and other expenses. In accordance with the *Workplace Safety and Insurance Act*, the WSIB provides benefits for loss-of-earnings, non-economic loss benefits for permanent impairment, payments for health care expenses, assistance to facilitate return to work, contributions to an injured worker's loss of retirement income account if disabled for more than 12 months, and survivor benefits in cases of work-related fatalities. Total benefit costs in 2010 were $4,809 million compared with $4,736 million in 2009, an increase of $73 million. The major components making up the net increase in benefit costs are:

($ millions)	2010	2009	Increase/ (decrease)
Benefit costs paid	**$3,367**	**$3,488**	**($121)**
Claims administration expense	**342**	**338**	**4**
Change in benefit liabilities:			
Changes in actuarial assumptions	1,301	725	576
Change in claims inventory	(201)	185	(386)
Change in benefit liabilities	**1,100**	**910**	**190**
Total benefit costs	**4,809**	**4,736**	**73**

Benefit costs paid

Benefit costs paid in 2010 were $3,367 million (2009: $3,488 million) for a decrease of $121 million, or 3.5 per cent. Management actions and fewer lost-time injuries resulted in lower payments for loss-of-earnings benefits of $40 million, health care of $17 million and external provider costs of $12 million. In addition, in 2010, the natural reduction of benefits paid to claimants related to prior legislation was $47 million below 2009 levels.



The savings in benefit costs paid is evidence of the WSIB's efforts to address key operational drivers of the unfunded liability. In particular, the savings in benefit costs paid is due to fewer lost-time claims, increased focus on return-to-work efforts leading to improved outcomes for injured workers, and better management of health-care costs. The Service Delivery model, new Work Reintegration program and health-care strategy are all showing early benefits that are expected to mature over the next few years. The WSIB is also experiencing early indications that short-term claims durations are decreasing; time will determine whether this is an ongoing trend.

Change in benefit liabilities

The WSIB's benefit liabilities are actuarially determined provisions for future benefit payments related to claims that occurred on or before December 31, 2010. As of that date, the benefit liabilities were $24,350 million, a $1,100 million increase from the December 31, 2009, value of $23,250 million. The $1,100-million increase is the net of a $1,301-million increase due to

changes in actuarial assumptions and a $201-million decrease due to declining claim inventories.

Changes in actuarial assumptions that have resulted in the $1,301-million increase in benefit liabilities are primarily due to:

- increasing duration of longer-term loss-of-earnings claims: This $593 million increase is due to an increase in the duration assumption for loss-of-earnings claims. While durations have shortened for short-duration loss-of-earnings claims and management actions are having a positive effect on reducing these claim durations, both now and in the future, there is a large cohort of mid- to long-duration claims that will be reaching lock-in in the near future for which reductions in claim-duration assumptions were considered to be too aggressive. While management actions are also addressing the current mid- to long-duration claims, the assumption for reductions in claims durations has been made less aggressive to reflect the cohort of such claims that will be passing through these durations in the future.
- Increases in provision for the longevity of claimants: This $200-million increase is to provide for improvements in the future mortality of injured workers and survivors. From actuarial mortality studies, there are consistent long-term trends of pensioners and annuitants living longer.
- Increases in the expectation of greater costs for occupational disease claims arising from employment: This $600-million increase is to provide for occupational disease claims that are expected to arise in the future from current workplace exposures. Past benefit liabilities have provided for the future payments on occupational disease claims that have been incurred, and have included an estimate for such claims that have been incurred but not yet reported to the WSIB. This increase provides for future occupational disease claims that have not yet been incurred.
- There also was a $92-million decrease due to the reduction in the indexation rate for 2011 full disability and survivor benefit payments from the assumption of a 2.5 per cent inflation rate to the actual inflation rate of 1.6 percent for the 12 month period ending October 31, 2010.

In addition, benefit liabilities decreased by $201 million due to natural reductions from closures of older claims and lower benefit payments.

Responsibility for financial reporting

The accompanying consolidated financial statements were prepared by management in accordance with Canadian generally accepted accounting principles, consistently applied, and include amounts based upon management's best estimates and judgments. Any financial information contained elsewhere in the Annual Report is consistent with these consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements and has established systems of internal control to provide reasonable assurance that assets are properly accounted for and safeguarded from loss. The Board of Directors has established an Audit and Finance Committee to ensure that management fulfils these responsibilities. The Audit and Finance Committee meets periodically with management, internal auditors, and external auditors to ensure that their responsibilities are properly discharged with respect to financial statement presentation, disclosure, and recommendations on internal control.

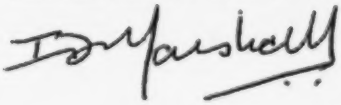
The Internal Audit Division performs audits designed to test the adequacy and consistency of the Workplace Safety and Insurance Board's (WSIB's) internal controls, practices, and procedures.

Role of the actuary

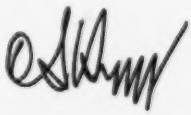
With respect to the preparation of the consolidated financial statements, the actuary prepares a valuation, including the selection of appropriate assumptions, of the WSIB's benefit liabilities at the balance sheet date to determine the valuation of the benefit liabilities and provide an opinion to the Board of Directors regarding the appropriateness of the benefit liabilities recorded by management of the WSIB at the balance sheet date. The work to form that opinion includes an examination of the sufficiency and reliability of data, and a review of the valuation processes. The actuary is responsible for assessing whether the assumptions and methods used for the valuation of the benefit liabilities are in accordance with accepted actuarial practice, applicable legislation, and associated regulations and directives. In performing the valuation of these liabilities, which are by their very nature inherently variable, the actuary makes assumptions as to future interest and mortality rates, expenses, related trends, and other contingencies, taking into consideration the circumstances of the WSIB. It is certain that the benefit liabilities will not develop exactly as projected and may, in fact, vary significantly from the projections. Further, the projections make no provision for future claim categories not sufficiently recognized in the claims experience and inventories. The actuary's report outlines the scope of the valuation and his opinion.

Role of the external auditors

The external auditors, KPMG LLP, working under the direction of the Auditor General of Ontario, have performed an independent and objective audit of the consolidated financial statements of the WSIB in accordance with Canadian generally accepted auditing standards. In carrying out their audit, the external auditors make use of the work of the actuary and his report on the benefit liabilities of the WSIB. The external auditors have full and unrestricted access to the Board of Directors and the Audit and Finance Committee to discuss audit, financial reporting, and related findings. The independent auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements of the WSIB.



I. David Marshall
President and CEO



Daniel Hogg
Acting Chief Financial Officer

April 14, 2011

Independent Auditors' report

To the Workplace Safety and Insurance Board, the Minister of Labour and the Auditor General of Ontario

Pursuant to the Workplace Safety and Insurance Act, which provides that the accounts of the Workplace Safety and Insurance Board ("WSIB") shall be audited by the Auditor General of Ontario or under his direction by an auditor appointed by the Lieutenant Governor in Council for that purpose, we have audited the accompanying consolidated financial statements of the WSIB, which comprise the consolidated balance sheet as of December 31, 2010, the consolidated statements of operations, changes in unfunded liability, comprehensive income (loss) and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of WSIB as of December 31, 2010, and its consolidated results of operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

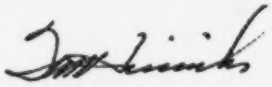
KPMG LLP

Chartered Accountants, Licensed Public Accountants
April 14, 2011
Toronto, Canada

Actuarial opinion

I have valued the benefit liabilities of the Workplace Safety and Insurance Board of Ontario for its consolidated balance sheet as of December 31, 2010, and its change in the consolidated statement of operations for the year then ended in accordance with actuarial practice generally accepted in Canada, including the selection of appropriate assumptions and methods.

In my opinion, the amount of benefit liabilities makes appropriate provision for all Schedule 1 Insurance Fund obligations and the consolidated financial statements fairly present the results of the valuation.



W. Robert Hinrichs
Fellow, Canadian Institute of Actuaries

April 14, 2011

Consolidated financial statements

CONSOLIDATED BALANCE SHEET

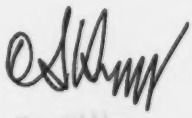
as of December 31

($ millions)	2010	2009
Assets		
Cash and cash equivalents	$ 305	$ 45
Receivables	870	882
Investment receivables (note 3)	78	75
Employee benefit plans (note 10)	29	-
Investments (note 3)	15,136	14,350
Property, equipment and other assets (note 7)	119	113
Intangible assets (note 8)	101	96
	$ 16,638	**$ 15,561**
Liabilities		
Payables and accruals	$ 955	$ 754
Investment payables (note 3)	24	20
Long-term debt (note 9)	121	109
Loss of Retirement Income Fund (note 6)	1,193	1,054
Employee benefit plans (note 10)	520	495
Benefit liabilities (note 11)	24,350	23,250
	27,163	**25,682**
Non-controlling interest in pooled investments (note 3)	1,830	1,630
Unfunded liability (note 12)		
Accumulated excess of expenses over revenues	(13,693)	(13,106)
Accumulated other comprehensive income	1,338	1,355
	(12,355)	**(11,751)**
	$ 16,638	**$ 15,561**

Commitments and Contingencies (note 15)

On behalf of the Board of Directors:

I. David Marshall
President and CEO



Daniel Hogg
Acting Chief Financial Officer

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF OPERATIONS

For the years ended December 31

($ millions)	2010	2009
Gross revenue	**$ 4,877**	**$ 4,227**
Current operations		
Revenues		
Premiums for the year	$ 2,835	$ 2,533
Investments (note 3)	1,139	686
Other income	3	1
	3,977	**3,220**
Expenses		
Benefit costs (note 11)	4,809	4,736
Loss of Retirement Income Fund (note 6)	167	194
Administrative and other expenses (note 13)	213	188
Legislated obligations and commitments (note 14)	227	227
	5,416	**5,345**
Excess of expenses over revenues from current operations	**(1,439)**	**(2,125)**
Premiums for unfunded liability	900	1,007
Excess of expenses over revenues before non-controlling interest in income from pooled investments	**(539)**	**(1,118)**
Non-controlling interest in income from pooled investments (note 3)	(136)	(71)
Excess of expenses over revenues	**$ (675)**	**$ (1,189)**

CONSOLIDATED STATEMENT OF CHANGES IN UNFUNDED LIABILITY

For the years ended December 31

($ millions)	2010	2009
Accumulated excess of expenses over revenues		
Balance at beginning of year	$ (13,106)	$ (11,917)
Change in ownership share of non-controlling interest in pooled investments	88	-
Excess of expenses over revenues	(675)	(1,189)
Balance at end of year	**(13,693)**	**(13,106)**
Accumulated other comprehensive income		
Balance at beginning of year	1,355	448
Change in ownership share of non-controlling interest in pooled investments	(84)	-
Unrealized gains on investments net of amounts realized	67	907
Balance at end of year	**1,338**	**1,355**
Unfunded liability at end of year	**$ (12,355)**	**$ (11,751)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the years ended December 31

($ millions)	2010	2009
Excess of expenses over revenues	**$ (675)**	**$ (1,189)**
Other comprehensive income (loss)		
Unrealized net gains on available-for-sale financial assets arising during the year	651	986
Realized (gains) losses included in income	(575)	45
Unrealized gains on investments	**76**	**1,031**
Non-controlling interest in income from pooled investments	(9)	(124)
Unrealized gains on investments after non-controlling interest in income from pooled investments	**67**	**907**
Comprehensive loss	**$ (608)**	**$ (282)**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the years ended December 31

($ millions)	2010	2009
Operating cash flows		
Cash received from:		
Premiums for the year	$ 2,986	$ 2,500
Premiums for unfunded liability	956	992
Investment income	521	474
	4,463	3,966
Cash paid to:		
Claimants, survivors, and care providers	(3,359)	(3,482)
Loss of Retirement Income Fund	(79)	(79)
Employees and suppliers of administrative goods and services	(559)	(584)
Legislated obligations and commitments	(227)	(226)
	(4,224)	(4,371)
Net cash provided (required) by operating activities	**239**	**(405)**
Investing cash flows		
Sale of investments	26,088	24,130
Purchase of investments	(25,968)	(23,765)
Acquisitions	(95)	(38)
Net cash provided by investing activities	**25**	**327**
Financing cash flows		
Mortgages	(1)	(3)
Obligation under capital leases	(3)	(2)
Net cash required by financing activities	**(4)**	**(5)**
Increase (decrease) in cash and cash equivalents	**260**	**(83)**
Cash and cash equivalents, beginning of year	45	128
Cash and cash equivalents, end of year	**$ 305**	**$ 45**
Cash and cash equivalents of investment funds included in investments*	703	382
	$ 1,008	$ 427

*Includes $146 million cash (2009: $17 million) held in LRI 60-65 program

Notes to the consolidated financial statements

December 31, 2010

1. Nature of operations

The Workplace Safety and Insurance Board (WSIB) is a statutory corporation created by an Act of the Ontario Legislature in 1914. The WSIB is responsible for administering the *Workplace Safety and Insurance Act, 1997*. The WSIB promotes the prevention of injuries and illnesses in Ontario workplaces and provides insurance benefits to workers who sustain injuries in the course of employment or who contract occupational diseases. The WSIB also provides insurance benefits in the case of workers who die due to workplace injuries or illnesses to their survivors and assists injured workers in their early and safe return to work.

Employers covered by the *Workplace Safety and Insurance Act, 1997*, are divided into two groups, referred to as "Schedule 1" and "Schedule 2." Schedule 1 employers are insured under a "collective liability" system and are required to contribute to the WSIB Insurance Fund. Schedule 2 employers are "self-insured" and are individually liable for the full costs of their workers' claims. The WSIB pays insurance benefits for Schedule 2 workers and is reimbursed by their employers for the costs of the claims, including administrative costs, and for the cost of the WSIB's prevention activities.

The WSIB also administers the federal *Government Employees Compensation Act*. Under an agreement with Human Resources Development Canada, the federal government is treated like a Schedule 2 employer.

Revenue is raised through premiums, which are collected from all Schedule 1 employers covered under the *Workplace Safety and Insurance Act, 1997*. Revenue is also earned from a diversified investment portfolio held to meet future obligations on existing claims. Schedule 2 reimbursements also contribute to the WSIB revenue.

The WSIB receives no government funding or assistance. The consolidated financial statements have been prepared on a going concern basis, as management has plans to eliminate the unfunded liability over the course of several years.

2. Significant accounting policies

The consolidated financial statements include the Schedule 1 and Schedule 2 accounts of the WSIB and its subsidiaries. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from these estimates.

The significant accounting policies are summarized as follows:

Basis of consolidation

The WSIB's subsidiaries are consolidated. Investments in entities in which the WSIB exercises a significant influence are accounted for using the equity method.

The consolidated financial statements include the assets, liabilities, results of operations, and cash flows of all subsidiaries of the WSIB after the elimination of intercompany transactions and balances.

Cash and cash equivalents

Cash and cash equivalents consist of cash and money market instruments with original maturities up to three months.

Receivables

Receivables consist of premium receivable from stakeholders. The balance is shown net of an allowance for doubtful accounts of $132 million (2009: $154 million).

Investments

Investments in short-term securities, bonds, and equities are classified as either held-for-trading or available-for-sale based on management's intention. Investment transactions are recorded on the trade date basis. The WSIB has designated all of its investments as available-for-sale except for derivatives, which are classified as held-for-trading.

Available-for-sale securities include securities that may be sold in response to or in anticipation of changes in interest rates, changes in foreign currency risk, changes in funding sources, or to meet liquidity needs. Available-for-sale securities are carried at estimated fair value. Realized gains and losses are recognized as investment income in the year in which they occur. Unrealized gains and losses on available-for-sale securities are recognized in other comprehensive income until they are realized.

Available-for-sale securities are assessed regularly to determine whether an unrealized loss is an other-than-temporary impairment. Writedowns to reflect other-than-temporary impairment are included in investment income and removed from accumulated other comprehensive income.

Held-for-trading securities, which are purchased for sale in the near term, are reported at estimated fair value. Realized and unrealized gains and losses are recognized as investment income as they arise.

Transaction costs are capitalized for all financial instruments designated as available-for-sale. For derivative financial instruments designated as held-for-trading, transactions costs are expensed as incurred. The WSIB is party to forward foreign exchange contracts that are designated as held-for-trading and are carried at fair value. Changes in the fair value of these forward foreign exchange contracts are recognized in income in the period in which they arise.

Investment asset pooling

On January 1, 2009, the WSIB and the WSIB's Employees' Pension Plan pooled all equity, bond, and real estate investments held in the WSIB's Insurance Fund, the Loss of Retirement Income Fund, and the WSIB's Employees' Pension Plan into four separate pooled funds. These pools were established to hold the public equity, fixed income, real estate, and other investment assets respectively. The public equity, fixed income, and other asset pools were established as trusts. The real estate pool was established as a real estate holding company.

The fair value of pension plan assets initially transferred into the pool was $1,412 million.

On the date of transfer, the WSIB owned 89 per cent of the public equity pool, 89 per cent of the fixed income pool, 93 per cent of the real estate pool, and 100 per cent of the other asset pool. The trust agreements provide the WSIB

exclusive power and control over the trusts. Due to its substantial ownership and control the WSIB consolidates all four funds.

During 2010, the Infrastructure Pooled Fund Trust was established and Diversified Beta Strategies Ltd. was incorporated. These entities respectively hold all infrastructure and diversified beta investments of the WSIB and the WSIB's Employees' Pension Plan.

The Employees' Pension Plan's share of investment assets is in the range of 11 to 13 per cent of each pooled trust, 14 per cent of diversified beta investments, and 12 per cent of the real estate holding company. These amounts are reflected as the non-controlling interest in pooled investments in the consolidated financial statements.

Real estate investments subject to significant influence

Significant influence is presumed when ownership in real estate entities is equal to or greater than 20 per cent. Investments in these entities are initially recorded at cost. Prior to January 1, 2004, the carrying value of these investments included move-to-market adjustments recorded to the end of 2003. These adjustments amortized any market value changes in these investments over a five-year period.

From January 1, 2004, the carrying value of these investments is adjusted to reflect the equity pick-up of earnings after a deduction for amortization of the building, less any dividends paid or payable. Amortization is taken over the estimated useful life of 40 years on a straight-line basis.

Fair value of financial instruments

The fair values of investments are the year-end quoted prices, where available. Where quoted prices are not available, estimated fair values are calculated based upon the yields and values of comparable marketable securities.

The real estate investments over which the WSIB does not have significant influence are stated at fair value based on market appraisals provided by independent third parties. Appraisals are based on accepted valuation methodologies of the Canadian Uniform Standards of Professional Appraisal Practice. These methodologies use a combination of techniques, such as discounted cash flows, direct capitalization, and direct comparison, which incorporate observable market inputs.

The cost of short-term securities, treasury bills, and term deposits maturing within a year, plus accrued interest income, approximates the fair value of these instruments.

The carrying value of receivables and payables approximates their fair value because of the short-term nature of these instruments.

Pooled fund investments are valued at the unit values supplied by the pooled fund administrator. These values represent the WSIB's proportionate share of underlying net assets at fair value.

Derivative instruments

The WSIB holds currency forward contracts that are classified as held-for-trading and reported at fair value, with changes in fair value included in income through the statement of operations.

Derivative instruments are financial instruments that derive their value from that of other financial instruments and economic or financial indicators,

including but not limited to derivatives of equity, fixed-income, or currency-related investments, futures and /or forward contracts, swaps, options, warrants, rights, or other similar instruments. The WSIB may use derivative instruments as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies, including but not limited to rebalancing.

Impairment review

Available-for-sale securities are reviewed quarterly to identify and evaluate investments that show indications of possible impairment. An investment is considered impaired if its unrealized losses represent impairment that is considered to be other-than-temporary. In determining whether a loss is temporary, factors considered include the extent of the unrealized loss, length of time that the security has been in an unrealized loss position, and the WSIB's ability and intent to hold the investment for a period of time sufficient to allow for any anticipated recovery. If a decline is considered other-than-temporary, a writedown is recorded in the consolidated statement of operations.

Foreign-currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing on the balance sheet date. Revenues and expenses are translated at exchange rates in effect on the transaction date. Realized exchange gains and losses are included in income. Unrealized exchange gains and losses for available-for-sale securities are included in other comprehensive income. Unrealized exchange gains and losses for held-for-trading securities are included in income.

Property, equipment, and other assets

Property, equipment, and other assets are recorded at cost. The cost of buildings includes development, financing, and other costs capitalized prior to the day they become fully operational. At this time, amortization commences. Capital assets are amortized using the straight-line method, at rates calculated to expense the cost of assets over their estimated useful lives, which are 20 years for buildings, five years for office equipment, three years for computer equipment, and the lesser of the lease term or ten years for leasehold improvements.

Premiums

Premium rates are established to cover all expected claims and operating costs for the upcoming injury year. To stabilize premium rates, there are rules in place to govern the amount of increase and to moderate any excessive changes from year to year. Premium rates include a component that is applied to reduce the unfunded liability. The WSIB may also levy a special premium when it is considered appropriate. In advance of the year, Schedule 1 employers are notified of their final premium rates to be paid for the upcoming injury year. Premium revenue is determined by applying premium rates to Schedule 1 employers' insurable payrolls.

Schedule 2 employers are individually liable to pay all insurance benefits and administration costs with respect to their workers' claims. Reimbursements for claims paid and the cost of administration are included in their premium assessment.

The Schedule 1 premiums are net of bad debts. An Allowance for Doubtful Accounts is recorded in the Consolidated Balance Sheet and is maintained

at a level that is adequate to absorb losses on premiums for Schedule 1 employers. The allowance comprises specific allowances and an additional allowance that covers any impairment in the employer premiums that, based on experience, will not be collectable.

Benefit liabilities

Benefit liabilities are determined annually through an actuarial valuation, which estimates the present value of future payments for loss-of-earnings, labour market re-entry, short- and long-term disability, health care, survivor benefits, retirement income benefits, and claim administration costs. They represent a provision for future benefit payments and the future cost of administering claims incurred on or before December 31. The provision has been determined by estimating future benefit payments in accordance with the adjudication practices in effect at December 31 and relevant legislation.

The benefit liabilities do not include any provision for payment of Schedule 2 claims. The costs of these claims are not considered the WSIB liabilities because they are the liability of Schedule 2 employers.

Pension and other benefit plans

The WSIB offers a number of benefit plans, which provide pension and other post-retirement benefits to eligible staff. These plans include a statutory pension plan, a supplemental pension plan, and other post-retirement benefits plans, including health, dental, and life insurance.

The WSIB funds its statutory pension and post-retirement benefit plans annually based on actuarially determined amounts required to satisfy employee benefit entitlements under current pension regulation and benefit plan policies. These pension plans provide benefits based on years of service and average earnings at retirement.

Actuarial valuations are performed annually to determine the present value of the accrued pension benefits, based on projections of the employees' compensation levels to the time of retirement. Investments held by the pension funds primarily comprise equity securities, bonds, and debentures. Pension fund assets are valued at fair value.

Pension benefit expense, which is included in staff benefit plans within administrative and other expenses (note 13), consists of the cost of employee pension benefits for the current year's service, interest cost on the liability, expected investment return on the market-related value of plan assets, and the amortization of unrecognized past service costs, unrecognized net actuarial gains or losses, and unrecognized transition asset or obligation. Amortization is charged over the expected average remaining service period of active employees covered by the plan.

The cumulative excess of pension fund contributions over the amount recorded as expenses is reported as a reduction in accrued benefit liability in the consolidated balance sheet. The cumulative excess of pension benefit expense over pension fund contributions is reported as a reduction in the employee benefit plan liabilities. Liabilities for other post-retirement benefits are also reported in the employee benefit plans' liabilities.

The full amount of the gain or loss from the change in obligation for workplace accident benefits is recognized in the year the gain or loss occurs and is included in other benefit plans (note 10).

Other defined-contribution plan costs are recognized in income for services rendered by employees during the year.

Significant accounting changes

Counterparty risk

Effective January 1, 2009, the WSIB adopted the CICA Emerging Issues Committee (EIC) Abstract No. 173: Credit Risk and the Fair Value of Financial Assets and Financial Liabilities. EIC 173 clarifies how an entity's own credit risk and that of relevant counterparty should be taken into account in determining the fair value of financial assets and financial liabilities, including derivative instruments. The new guidance did not have a material impact on the WSIB's 2009 and 2010 consolidated financial statements.

Future accounting changes – International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board (AcSB) confirmed that the changeover date for the adoption of International Financial Reporting Standards (IFRS) will be January 1, 2011. The WSIB will begin reporting consolidated financial statements on an IFRS basis on January 1, 2011, and will restate 2010 financial results based on IFRS to provide comparative information for users.

3. Investments and investment revenue

Investments by category are as follows:

($ millions)	2010							2009
	Amortized cost	Carrying value adjustments	Unrealized[1] Gains	Losses	Carrying value	Other[2]	WSIB	Carrying value
Cash and cash equivalents:								
Domestic[3]	$ 450	$ -	$ -	$ -	$ 450	$ 38	$ 412	$ 302
Foreign – U.S.	244	-	-	-	244	30	214	77
– Global	9	-	-	-	9	1	8	3
Total cash and cash equivalents	**703**	**-**	**-**	**-**	**703**	**69**	**634**	**382**
Held-for-trading:								
Foreign exchange contracts								
Domestic	-	3,529	-	-	3,529	431	3,098	2,964
Foreign – U.S.	-	(2,604)	-	-	(2,604)	(320)	(2,284)	(1,947)
– Global	-	(903)	-	-	(903)	(108)	(795)	(969)
Total held-for-trading	**-**	**22**	**-**	**-**	**22**	**3**	**19**	**48**
Available-for-sale:								
Fixed income securities								
Bonds	4,778	-	248	(4)	5,022	614	4,408	4,915
Equity securities								
Domestic	1,113	3	484	-	1,600	190	1,410	2,008
Foreign – US	2,924	2	299	-	3,225	382	2,843	3,150
– Global	2,292	3	250	-	2,545	301	2,244	2,622
Alternative investments[4]	938	-	57	(3)	992	128	864	429
Real estate[5]	160	23	134	(9)	308	36	272	281
Infrastructure[6]	116	-	-	(3)	113	14	99	-
Total available-for-sale	**12,321**	**31**	**1,472**	**(19)**	**13,805**	**1,665**	**12,140**	**13,405**
Real estate entities subject to significant influence	205	1	-	-	206	24	182	204
Real estate subsidiaries - income producing properties	326	7	-	-	333	62	271	251
Loss of Retirement Income Fund annuities	67	-	-	-	67	-	67	60
Total investments	**13,622**	**61**	**1,472**	**(19)**	**15,[illegible]**	**1,823**	**13,313**	**14,350**
Investment receivables:								
Amount due from pending trades	21	-	-	-	21	3	18	20
Accrued income	57	-	-	-	57	7	50	55
	78	-	-	-	78	10	68	75
Investment payables:								
Amount due for pending trades	(24)	-	-	-	(24)	(3)	(21)	(20)
Net investment assets	**$ 13,676**	**$ 61**	**$ 1,472**	**$ (19)**	**$ 15,190**	**$ 1,830**	**$ 13,360**	**$ 14,405**

1. Unrealized gains (losses) include a gain of $115 million from Employees' Pension Plan.
2. Comprised of Employees' Pension Plan non-controlling interest of $1,799 million and third party non-controlling interest of $31 million.
3. Includes $146 million cash (2009: $17 million) held in LRI 60-65 program.
4. Alternative investment portfolios comprised hedge fund units of $857 million, equities of $87 million, and bonds of $48 million.
5. Participating debentures in Real estate.
6. Infrastructure investment portfolios compromised debenture notes of $15 million and pooled fund units of $98 million.

Foreign currency

The gross notional amounts in foreign exchange contracts are the contractual amounts on which payments are ma 'e. The net notional value is the sum of the entire long (or the short) positions in the portfolio and it reflects the aggregate positions of the portfolio. These notional amounts have been converted into Canadian dollars at the contractual exchange rates in effect at the inception of the contracts.

At December 31, 2010, the gross notional value of outstanding foreign currency contracts was $5,136 million (2009: $3,852 million). Outstanding contracts in a favorable position had a fair value of $52 million (2009: $57 million) and those in an unfavorable position had a fair value of negative $30 million (2009: negative $9 million). Unrealized gains on foreign exchange contracts of $22 million (2009: gains of $48 million) were included in investment income.

The net notional value of foreign exchange contracts as of December 31, 2010, was $3,609 million (2009: $3,056 million).

The fair value of the investment portfolio includes $3,607 million (2009: $3,377 million) of securities denominated in foreign currency. The major holdings are as follows: 53 per cent (2009: 51 per cent) in US dollar, 9 per cent (2009: 11 per cent) in euro, 6 per cent (2009: 8 per cent) in Swiss franc, 5 per cent (2009: 7 per cent) in British pound sterling, 6 per cent (2009: 5 per cent) in Japanese yen, and 21 per cent (2009: 18 per cent) in other currencies.

Bonds by term to maturity as of December 31:

($ millions)	2010					2009
	Term to contractual maturity (years)					
	Up to 1	1 – 5	5 – 10	Over 10	Total	Total
Government bonds						
Fair value	$ -	$ 1,755	$ 836	$ 886	$ 3,477	$ 3,510
Yield %*	-	2.0	3.4	4.2	2.9	3.1
Corporate bonds						
Fair value	$ 1	$ 528	$ 433	$ 583	$ 1,545	$ 1,405
Yield %*	2.3	2.8	3.8	4.8	3.9	4.1
Total fair value	**$ 1**	**$ 2,283**	**$ 1,269**	**$ 1,469**	**$ 5,022**	**$ 4,915**
Yield %*	**2.3**	**2.2**	**3.6**	**4.4**	**3.2**	**3.4**

* The average yield reflects the yield to maturity, which is the discount rate that makes the present value of future cash flows for each bond equal to its fair value as of December 31.

Revenue by category of investment is as follows:

($ millions)	2010	2009
Held-for-trading		
Foreign-exchange contracts	$ 172	$ 321
Available-for-sale		
Bonds	262	272
Amortization	(19)	(21)
Equities	719	125
Alternative investments	15	(3)
Real estate*	15	11
Infrastructure	1	-
	993	384
Real estate entities subject to significant influence	8	7
Real estate subsidiaries - income producing properties	12	5
Short-term securities	1	1
	1,186	718
Investment expenses	(47)	(32)
Net investment revenue	**1,139**	**686**
Non-controlling interest in income from pooled investment	(136)	(71)
	$ 1,003	**$ 615**

* Participating debentures in real estate

Revenue from bonds includes $37 million (2009: $44 million) of net realized gains. Revenue from equities includes $536 million of net realized gains (2009: $86 million of net realized losses) and real estate includes $3 million (2009: $1 million) of net realized gains. Revenue from alternative investments includes $1 million (2009: $4 million) of net realized losses. Revenue from foreign exchange contracts includes $198 million (2009: $257 million) of net realized gains.

During the year, $299 million (2009: $655 million) was assessed as an other-than-temporary impairment on available-for-sale securities and recognized as a reduction in investment income. These assets were comprised of equity securities that had significant prolonged market losses that the WSIB determined were other-than-temporary. The remaining unrealized losses on available-for-sale securities of $19 million (2009: $45 million) are not considered to be other-than-temporarily impaired as at December 31, 2010, and remain in accumulated other comprehensive income. These losses were not considered other-than-temporary as their amounts were either insignificant and/or short-term in nature and are securities in which the WSIB has the intent and ability to hold to recover the temporary loss.

Securities lending

The WSIB earns additional income by participating in a securities-lending program. Securities it owns are loaned to others for a fee and are secured by high-quality collateral. The fair value of the collateral always exceeds the fair value of the securities loaned, and the collateral is marked-to-market daily. The program is managed by a Canadian financial institution.

At December 31, 2010, the fair value of securities on loan was $559 million (2009: $1,243 million). The collateral held with respect to these securities was $591 million (2009: $1,310 million).

4. Fair value measurements disclosures

CICA Handbook Section 3862: Financial Instruments – Disclosures establishes a three-tier hierarchy as a framework for disclosing fair value based on inputs used to value the WSIB's investments. The hierarchy of inputs is summarized below:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs used are observable inputs other than Level 1 quoted prices, such as prices in an active market for similar assets or liabilities or where observable inputs are used for valuation of an asset or liability (Level 2)
- Inputs used for the valuation of an asset or liability are not based on observable market data (unobservable inputs) (Level 3)

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

The following is a summary of the inputs used as of December 31 in valuing the WSIB's investments and derivatives carried at fair values:

($ millions)	2010				2009			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ -	$ 703	$ -	$ 703	$ -	$ 382	$ -	$ 382
Held-for-trading								
Foreign exchange contracts	-	22	-	22	-	48	-	48
Available-for-sale								
Bonds	-	5,018	4	5,022	-	4,911	4	4,915
Equities	7,298	72	-	7,370	7,579	201	-	7,780
Alternative investments	87	747	158	992	-	324	105	429
Real estate*	-	-	308	308	-	-	281	281
Infrastructure	-	113	-	113	-	-	-	-
Other								
Loss of Retirement Income Fund annuities	-	67	-	67	-	60	-	60
Total	**$ 7,385**	**$ 6,742**	**$ 470**	**$ 14,597**	**$ 7,579**	**$ 5,926**	**$ 390**	**$ 13,895**

* Participating debentures in real estate

For the year ended December 31, 2010, there were no significant transfers between Level 1 and Level 2, and /or between Level 2 and Level 3.

The reconciliation of investments measured at fair value using non-observable inputs (Level 3) is presented as follows:

($ millions)	2010	2009
Available-for-sale		
Balances at beginning of year	$ 390	$ 247
Purchases	54	146
Sales	(9)	-
Realized gains recorded in net income	12	11
Unrealized gains (losses) recorded in other comprehensive income	23	(14)
Balances at end of year	**$ 470**	**$ 390**

The total unrealized gains for the year ended December 31, 2010, included in comprehensive income that is still held as of year-end is $23 million (2009: 14 million of unrealized losses).

5. Financial instruments risk management

The WSIB is responsible for investing the funds of the Insurance Fund and Loss of Retirement Income Fund. These responsibilities are carried out through strategic and other investment policies that govern how the funds are to be invested and how the investment performance and compliance of the funds is to be monitored and evaluated. A statement of investment policies and procedures (SIPP) is reviewed and presented to the Board of Directors for approval. Review is undertaken of the WSIB's benefit liabilities and capital market assumptions to ascertain that the Policy Asset Mix and other provisions of the SIPP remain relevant to the prevailing and forecasted nature of the benefit liabilities. The Policy Asset Mix mitigates, but does not eliminate short-term risk through diversification across asset strategies and strikes a compromise between achieving the long-term return objective and enduring short-term variability.

Although, neither the Insurance nor Loss of Retirement Income Fund is a registered pension fund, the Act requires the funds available for investment be invested in those investments that are authorized under the *Ontario Pension Benefits Act*. It further requires that the funds be invested in the same manner as is authorized for those pension funds – namely, with the care, diligence, and skill that a person of ordinary prudence would exercise in dealing with the property of another person and using all relevant knowledge and skill that the person may possess.

Risk is inherent in the generating of investment returns in excess of the risk-free rate (i.e., three-month Government of Canada treasury bills) and in each element of the investment decision-making process, hence, risk measurement and risk management are integral to the asset management program.

The primary risk is that investment returns, taken together with a reasonable and sustainable level of contributions, are insufficient to meet the long-term obligations for which the fund is established. This risk would be manifest in the failure to achieve a return of at least the actuarial discount rate of seven per cent over a long-term horizon of rolling 15-year periods.

The significant risks related to financial instruments are credit risk, liquidity risk, and market risk (currency, interest rate, and price). The following sections describe how the WSIB manages each of these financial instrument risks:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Credit risk also includes concentration risk. The WSIB mitigates these portfolio credit risks through comprehensive due diligence and diversification.

i) Asset quality

Asset quality is an assessment of the financial liquidity of the investment and the ability of the issuer to meet current and future contractual obligations. The WSIB fixed income investments consist primarily of high-quality, investment grade debt instruments. An investment-grade bond is one that is rated BBB and above.

The following table highlights the bond ratings for fixed income securities as of December 31.

($ millions)	2010				2009	
Bond rating	**EPP***	**WSIB**	**Fair value total**	**%**	**Fair value total**	**%**
AAA	$ 225	$ 1,613	$ 1,838	36.6	$ 1,836	37.4
AA	171	1,231	1,402	27.9	1,575	32.0
A	180	1,294	1,474	29.4	1,240	25.2
BBB	38	270	308	6.1	264	5.4
Total	**$ 614**	**$ 4,408**	**$ 5,022**	**100**	**$ 4,915**	**100**

* Employees' Pension Plan non-controlling interest in pooled investments

The WSIB manages counterparty risk through a due diligence process by selecting multiple highly rated counterparties and by setting counterparty exposure limits. In addition, the WSIB requires its active currency managers to use a continuous linked settlement service to mitigate settlement risk and an international foreign exchange master agreement to mitigate risk of default at any time. The WSIB monitors its exposure on an ongoing basis.

The WSIB manages counterparty risk relating to our security-lending program by establishing a preapproved, qualified borrower list and through exposure limits. In addition, the WSIB mitigates counterparty risk by requiring daily marking-to-market to maintain full collateralization with additional margin for safety. Loans are secured by high-quality collateral that comprises primarily of government bonds (97 per cent) and major bank short-term notes (three per cent).

The WSIB pays insurance benefits for Schedule 2 workers and is then reimbursed by their employers for the related costs. The WSIB holds collateral in the form of letters of credit in the amount of $292 million (2009: 294 million) as of December 31, 2010, to mitigate any risk related to self-insurers' outstanding reimbursements. These letters of credit are issued by highly rated Canadian financial institutions and can be drawn upon on demand.

ii) Concentration risk

Concentration risk arises from the exposure of investments in one particular issuer, a group of issuers, a geographic region, or a sector. These groups share similar characteristics such as type of industry, regulatory compliance, and economic and, political conditions, which may impact the issuers' ability to meet contractual commitments. The WSIB manages these risks through limits on exposure to regions and sectors and limits on underlying securities. As such, not more than five per cent of the market value of the Insurance Fund

is invested in the securities of a single issuer. The WSIB's fixed income is derived from indexed portfolios, and none of the index constituents is more than three per cent of the index.

The following table highlights the fair value of fixed income securities by sector as of December 31.

($ millions)	2010				2009	
	EPP*	WSIB	Fair value total	%	Fair value total	%
Fixed-income sector						
Asset-backed securities	$ 12	$ 88	$ 100	2.0	$ 59	1.2
Communications and publishing	6	42	48	1.0	50	1.0
Consumer products and merchandising	6	39	45	0.9	31	0.6
Federal government and agency	176	1,264	1,440	28.7	1,437	29.3
Financial services	90	648	738	14.7	756	15.4
Industrial products	1	9	10	0.2	3	0.1
Natural resources	13	95	108	2.1	21	0.4
Other corporate	15	104	119	2.4	182	3.7
Provincials and municipal	246	1,769	2,015	40.1	2,073	42.2
Real estate	4	28	32	0.6	26	0.5
Utilities and telecommunications	45	322	367	7.3	277	5.6
Total	**$ 614**	**$ 4,408**	**$ 5,022**	**100**	**$ 4,915**	**100**

* Employees' Pension Plan non-controlling interest in pooled investments

Liquidity risk

Liquidity risk, or funding risk, is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Liquidity risk to the WSIB is the risk that it will not be able to fund all cash outflow commitments as they fall due. The WSIB mitigates this risk by investing 87.1 per cent (2009: 91.9 per cent) of its insurance assets in readily marketable instruments, publicly traded equity, and fixed income securities. The remaining insurance assets are invested in quality real estate investments for 5.6 per cent (2009: 5.1 per cent) in commercial properties in major markets that provide steady cash flows, alternative investments for 6.6 per cent (2009: 3.0 per cent), and infrastructure for 0.7 per cent (2009: nil).

The following outlines the carrying values of financial assets by contractual maturity or expected cash flow.

($ millions)	2010								2009
	1 yr	2 – 5 yrs	6 – 10 yrs	>10 yrs	No fixed maturity	Total	Other*	WSIB	Total
Assets:									
Cash and cash equivalents	$ 703	$ -	$ -	$ -	$ -	$ 703	$ 69	$ 634	$ 382
Investment receivables	78	-	-	-	-	78	10	68	75
Foreign exchange contracts	22	-	-	-	-	22	3	19	48
Bonds	-	2,282	1,269	1,471	-	5,022	614	4,408	4,915
Equities	-	-	-	-	7,370	7,370	873	6,497	7,780
Alternative investments	-	16	15	17	944	992	128	864	429
Real estate**	-	-	-	-	847	847	122	725	736
Infrastructure	-	-	-	-	113	113	14	99	-
Total	**$ 803**	**$ 2,298**	**$ 1,284**	**$ 1,488**	**$ 9,274**	**$ 15,147**	**$ 1,833**	**$ 13,314**	**$ 14,365**

* Comprised of Employees' Pension Plan non-controlling interest of $1,799 million (net of investment payable of $3 million) and third party non-controlling interest of $31 million.
** Participating debentures in Real estate.

Market risk

There are three types of market risk: foreign currency risk, interest rate risk and price risk. Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Interest rate risk is the risk that the value of the financial instrument will fluctuate due to changes in market interest rates. Price risk is the risk that the value of the financial instrument will fluctuate as a result of changes in market prices.

i) Foreign currency risk

Foreign currency risk is the risk of loss due to adverse movements in foreign currency rates as compared with the Canadian dollar. The WSIB uses foreign exchange contracts as an additional source of return, for economic hedging strategies to manage investment risk, to improve liquidity, or to manage exposure to asset classes or strategies. Foreign exchange contracts are agreements to exchange an amount of one currency for another at a future date and at a set price, agreed upon at the contract inception. The fair value of these financial instruments would change in response to changes in the underlying variables affecting the contracts, such as changes in the foreign exchange rates of the currencies involved in the contracts.

Below is a sensitivity analysis of the effect of a fluctuation in the Canadian dollar of +/- 1 per cent against the five major currencies that represents 79 per cent (2009: 82 per cent) of the WSIB's investment portfolio foreign currency exposure (actual market fluctuations could differ significantly from the sensitivity analysis presented).

($ millions)

Currency	WSIB	EPP*	Total fair value exposure	+/-1%
U.S. dollar	$ 1,688	$ 228	$ 1,916	$ 19
Euro	290	39	329	3
Swiss franc	188	25	213	2
British pound sterling	174	23	197	2
Japanese yen	175	23	198	2
Total	**$ 2,515**	**$ 338**	**$ 2,853**	**$ 28**

* Employees' Pension Plan non-controlling interest in pooled investments

ii) Interest rate risk

Interest rate risk is the potential for financial loss arising from changes in interest rates. The WSIB reviews interest rate risk through periodic asset liability analyses that assess the impact of different interest rate scenarios on asset and liabilities of the Insurance Fund over a period of time. Interest rate risk is mitigated primarily through asset allocation, which aims to cover interest rate risk over the long-term.

The WSIB uses Option Adjusted Modified Duration to measure the sensitivity of the price of a fixed income instrument to a change in interest rates. A parallel shift in the yield curve of +/- 1 per cent would result in an impact on the fair value of the bond portfolio of approximately $320 million (2009: $290 million), with all other variables held constant. In practice, actual results may differ materially from this sensitivity analysis. This information is based on the assumption that the securities in the WSIB's portfolio are not impaired; interest rates and equity prices move independently; and credit and liquidity risks have not been considered. Available-for-sale securities in an unrealized loss position, as reflected in other comprehensive income, may at some point in the future be realized either through a sale or an other-than-temporary impairment.

iii) Price risk

Price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The WSIB mitigates price risk by diversification of its investment portfolios. Also, the SIPP outlines the policy mix requirements to manage the price risk. As well, the funds are actively managed. A balanced allocation of risk across a broad set of return sources is appropriate to meet the return objectives of the funds. The assets of the funds are diversified by combining different sources of return across and within asset classes and investment strategies

The estimated effect on net assets due to 10 per cent change in market indices, holding all other factors constant, would be as follows (actual market fluctuations could differ significantly from the sensitivity analysis presented):

($ millions)

Market indices	WSIB	EPP*	Total fair value exposure	Effect on net assets
S&P/TSX	$ 1,410	$ 190	$ 1,600	$ 160
S&P 500/NYSE	2,801	377	3,178	318
MSCI EM	213	29	242	24
MSCI EAFE	2,071	279	2,350	235
Total	**$ 6,495**	**$ 875**	**$ 7,370**	**$ 737**

* Employees' Pension Plan non-controlling interest in pooled investments

6. Loss of Retirement Income Fund

The carrying value of the Loss of Retirement Income investments as of December 31 is as follows:

($ millions)	2010	2009
Cash and cash equivalents	$ 147	$ 17
Bonds	396	385
Equities	580	597
Return pooled fund	10	-
Investment fund	**1,133**	**999**
Payables from Schedule 1 and Schedule 2	(7)	(5)
Net investment fund	**1,126**	**994**
Annuities	67	60
	$ 1,193	**$ 1,054**

The WSIB has purchased annuities from various annuity providers to administer the settlement of Loss of Retirement Income benefits to eligible claimants. The related financial asset and corresponding liability are carried at actuarially determined fair values. The WSIB remains liable for the annuities in the event of default by the annuity providers. This risk is mitigated by acquiring annuities from highly rated Canadian financial institutions. As of December 31, 2010, none of the annuity providers was in default and no provision for credit risk was required.

The change in Loss of Retirement Income investment is as follows:

($ millions)	2010	2009
Funds set aside under the Act[1]	$ 88[2]	$ 87[2]
Investment income	89	115
Benefit costs paid	(45)	(39)
Increase in net assets	132	163
Net assets, beginning of year	994	831
Net assets, end of year	**$ 1,126**	**$ 994**

[1] *Workplace Safety and Insurance Act, 1997*
[2] Includes $10 million (2009: $8 million) of injured worker optional contributions

The expenses of Loss of Retirement Income Fund are made up as follows:

($ millions)	2010	2009
Funds set aside under the *Act*[1]	$ 88	$ 87
less: Injured worker optional contributions	(10)	(8)
Increase in investment obligation	89	115
Total expenses	**$ 167**	**$ 194**

[1] *Workplace Safety and Insurance Act, 1997*

For injuries and illnesses that occurred prior to January 1, 1998, the WSIB sets aside funds equal to 10 per cent of every payment made to injured workers.

Effective January 1, 1998, for claims incurred after December 31, 1997, for workers who have received Loss of Earnings benefits for 12 continuous months, the WSIB sets aside five per cent of their Loss of Earnings benefits for their retirement fund. Injured workers may choose to contribute a further five per cent from their Loss of Earnings benefits. These funds are segregated from the WSIB's investment portfolio and are invested to provide retirement income benefits for injured workers.

7. Property, equipment, and other assets

($ millions)	2010		2009
	Cost	Net carrying value	Net carrying value
Land, under a capital lease	$ 29	$ 29	$ 29
Buildings and leasehold improvements	202	69	78
Office equipment	115	4	3
Computer equipment	82	10	3
	428	112	113
Other assets	7	7	-
	$ 435	**$ 119**	**$ 113**

Amortization expense in 2010 was $13 million (2009: $14 million)

The WSIB, through its wholly owned subsidiary, 799549 Ontario Inc., is a 75 per cent participant in a co-ownership agreement for its head office land and building at 200 Front Street West, Toronto.

The land of $29 million represents the WSIB's 75 per cent share of the co-ownership's interest in land on which the WSIB's head office building was constructed.

The building and leasehold improvements of $69 million (2009: $78 million) represent the WSIB's 75 per cent share of the co-ownership.

8. Intangible assets

Intangible assets include the following:

($ millions)	2010			2009
	Cost	Accumulated amortization	Net carrying value	Net carrying value
Computer software	$ 108	$ 76	$ 32	$ 33
Computer software under development	69	-	69	63
	$ 177	**$ 76**	**$ 101**	**$ 96**

During the 12-month period ended December 31, 2010, computer software under development increased by $6 million (2009: decreased by $14 million). Computer software is amortized on a straight-line basis over periods of three to five years, with no residual value.

Amortization expense is as follows:

($ millions)	2010	2009
Computer software	$ 13	$ 7

9. Long-term debt

($ millions)	2010	2009
Mortgages payable	$ 96	$ 97
Obligation under capital leases	31	25
	127	122
Current portion	(6)	(13)
	$ 121	**$ 109**

Mortgages payable

To fund part of the development and construction of the building at 200 Front Street West, Toronto (note 7), the WSIB entered into a long-term mortgage loan agreement in 1993. The mortgage loan is secured by the building and matures in the year 2015. The interest rate is fixed at 10.25 per cent per annum, compounded semi-annually. The balance of this mortgage on December 31, 2010, was $64 million (2009: $66 million).

Three of the real estate subsidiaries acquired in 2008 and 2010 separately have mortgage balances. The interest rates on these mortgages are 6.18 per cent on a loan balance of $22 million, 4.85 per cent on a loan balance of $8 million, and zero per cent on a vender-take-back loan balance of $2 million. The first mortgage matures in 2014 and the remaining mortgages mature in 2015.

The fair value of the mortgages payable as of December 31, 2010, was $95 million (2009: $97 million) with a book value of $96 million (2009: $97 million). Mortgage interest expense of $7 million was included in occupancy cost (note 13) and $2 million was included in investment income (2009: $7 million and $2 million).

Future mortgage payments are as follows:

($ millions)	
2011	$ 10
2012	10
2013	10
2014	30
2015	70
	130
Interest portion	(34)
	$ 96

Obligation under capital leases

The obligation under capital leases consists of the following:

($ millions)	2010	2009
Simcoe Place land lease	$ 22	$ 22
Computer equipment leases	9	3
	$ 31	**$ 25**

The Simcoe Place land lease represents the balance of the lease obligation for the land at 200 Front Street West, Toronto (note 7), on which the WSIB's office building is located. The WSIB, through its wholly owned subsidiary, 799549 Ontario Inc., makes annual lease payments of $4 million under this capital lease.

During 2006, the WSIB negotiated an amendment to this lease to accelerate the lease expiry from 2087 to 2027, and to provide the WSIB with an option to purchase a 75 per cent interest in the land at the expiry date of May 31, 2027 for $1.5 million. This option price is considered by management to be advantageous and is expected that the option will be exercised.

There are three capital leases for computer equipment, with initial terms between three and four years. These leases are expiring within the period from 2012 to 2014.

The fair value of the lease obligations at December 31, 2010, was $45 million (2009: $41 million). Interest on the capital lease obligation for the year was $4 million (2009: $4 million). Interest on the Simcoe Place land lease obligation for the year of $4 million (2009: $4 million) was included in occupancy cost.

Future minimum lease payments and the balance of the lease obligation at December 31, 2010, are as follows:

($ millions)	
2011	$ 7
2012	7
2013	7
2014	5
2015	4
	30
Thereafter	50
	80
Interest portion	(49)
	$ 31

10. Employee benefit plans

The WSIB has several benefit plans for eligible current and retired employees. The cost of employee benefit plans is recognized in the reporting period in which employees have provided service.

Pension and other benefit plans

The WSIB has two pension plans for its employees and employees of Safe Workplace Associations, the WSIB Employees' Pension Plan, and the WSIB Employees' Supplementary Pension Plan.

The WSIB Employees' Pension Plan is a defined-benefit pension plan that provides for partially indexed pensions based on years of service and best five consecutive years' average earnings in the last 10 years. The WSIB Employee's Supplementary Pension Plan ensures that employees of the WSIB and Safe Workplace Associations whose earnings exceed the threshold earnings for the maximum pension benefit permitted under the Federal *Income Tax Act* will receive pension benefits based on their total earnings.

The investment activities and the administrative and accounting functions of the pension plans are administered by the WSIB. The accrued pension obligations of the plans reflect management's estimates of salary escalation, investment rate of return, mortality of members, terminations, and ages at which members will retire.

Other benefits include medical, dental and life insurance, accrued vacation, short-term salary protection to cover periods of illness and other absences, as well as the costs of insurance benefits provided to employees who sustain injuries in the course of employment. The measurement date for financial reporting purposes of the plan assets and the benefit obligation is as of December 31, 2010. The most recent and next actuarial valuations for funding purposes are as of December 31, 2009, and 2012, respectively.

Information about the WSIB's defined-benefit pension plans and other benefit plans in aggregate is as follows:

($ millions)	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other benefit plans		Total plans	
	2010	2009	2010	2009	2010	2009	2010	2009
Accrued benefit obligation:								
Beginning of year	**$ 1,903.2**	**$ 1,488.7**	**$ 17.7**	**$ 13.0**	**$ 512.8**	**$ 409.7**	**$ 2,433.7**	**$ 1,911.4**
Current service cost	48.7	32.7	0.3	0.1	13.4	11.5	62.4	44.3
Interest cost	111.9	106.3	1.1	0.9	29.6	28.8	142.6	136.0
Benefits paid	(56.6)	(53.4)	(0.6)	(0.5)	(17.4)	(17.7)	(74.6)	(71.6)
Contributions by employee	22.1	23.5	0.2	0.3	-	-	22.3	23.8
Past service benefit cost	-	-	-	-	-	-	-	-
Actuarial loss	146.8	305.4	1.1	3.9	2.7	80.5	150.6	389.8
End of year	**2,176.1**	**1,903.2**	**19.8**	**17.7**	**541.1**	**512.8**	**2,737.0**	**2,433.7**
Plan assets:								
Fair value at beginning of year	**1,643.2**	**1,444.0**	**2.7**	**2.6**	**-**	**-**	**1,645.9**	**1,446.6**
Actual return on plan assets	155.3	190.2	-	-	-	-	155.3	190.2
Contributions by employer	71.7	38.9	0.2	0.3	17.4	17.7	89.3	56.9
Contributions by employee	22.1	23.5	0.2	0.3	-	-	22.3	23.8
Benefits paid	(56.6)	(53.4)	(0.6)	(0.5)	(17.4)	(17.7)	(74.6)	(71.6)
Fair value at end of year	**1,835.7**	**1,643.2**	**2.5**	**2.7**	**-**	**-**	**1,838.2**	**1,645.9**
Funded status:								
Funded status-plan deficit	(340.4)	(260.0)	(17.3)	(15.0)	(541.1)	(512.8)	(898.8)	(787.8)
Unamortized net actuarial loss	390.9	288.6	4.4	3.3	30.2	28.8	425.5	320.7
Unamortized past service costs	13.6	15.6	(0.1)	(0.1)	3.6	4.2	17.1	19.7
Unamortized transitional obligation	(35.4)	(47.2)	-	-	-	-	(35.4)	(47.2)
Accrued benefit asset (liability)	**28.7**	**(3.0)**	**(13.0)**	**(11.8)**	**(507.3)**	**(479.8)**	**(491.6)**	**(494.6)**
Accrued benefit obligation, end of year	2,176.1	1,903.2	19.8	17.7	541.1	512.8	2,737.0	2,433.7
Fair value of plan assets, end of year	1,835.7	1,643.2	2.5	2.7	-	-	1,838.2	1,645.9
Funded status, plan deficit	**(340.4)**	**(260.0)**	**(17.3)**	**(15.0)**	**(541.1)**	**(512.8)**	**(898.8)**	**(787.8)**
Net benefit plan expense:								
Current service cost	48.7	32.7	0.3	0.1	13.4	11.5	62.4	44.3
Interest cost	111.9	106.3	1.1	0.9	29.6	28.8	142.6	136.0
Expected return on plan assets	(117.5)	(117.8)	(0.1)	-	-	-	(117.6)	(117.8)
Amortization of past service costs	2.0	2.0	-	-	0.6	0.6	2.6	2.6
Amortization of transitional obligation	(11.8)	(11.8)	-	-	-	-	(11.8)	(11.8)
Amortization of net actuarial (gain) loss	6.8	(0.8)	0.1	-	1.3	(2.6)	8.2	(3.4)
Net benefit plan expense	**$ 40.1**	**$ 10.6**	**$ 1.4**	**$ 1.0**	**$ 44.9**	**$ 38.3**	**$ 86.4**	**$ 49.9**

($ millions)	Employees' Pension Plan				Employees' Supplementary Pension Plan	
	2010		2009		2010	2009
	$	%	$	%	$	$
Plan assets by major category						
Equity securities	$ 903.9	49.2	$ 937.5	57.0	$ -	$ -
Debt securities	618.2	33.7	581.5	35.4	-	-
Real estate	112.1	6.1	53.6	3.3	-	-
Infrastructure	16.2	0.9	-	-	-	-
Other	185.3	10.1	70.6	4.3	2.5	2.7
Total	**$ 1,835.7**	**100**	**$ 1,643.2**	**100**	**$ 2.5**	**$ 2.7**

The significant actuarial assumptions adopted for the year to value the Employees' Pension Plan, the Employees' Supplementary Pension Plan, and other benefit plans are as follows:

	Employees' Pension Plan		Employees' Supplementary Pension Plan		Other benefit plans	
	2010	2009	2010	2009	2010	2009
Discount rate - plan expenses	5.75%	7.00%	5.75%	7.00%	5.75%	7.00%
Discount rate - accrued benefit obligations	5.20%	5.75%	5.20%	5.75%	5.20%	5.75%
Expected long-term rate of return on plan assets	7.0%	7.0%	3.5%	3.5%	-	-
Dental cost escalation	-	-	-	-	4.0%	4.0%
Average remaining service period (years)	12	13	12	13	12.9	13.5

Health-care cost trend rates at of December 31 are as follows:

	2010	2009
Medical cost		
General inflation rate		
Initial rate	10.0%*	10.0%*
Ultimate rate	4.0%	4.0%
Year ultimate rate reached	2017	2016
Dental costs		
General inflation rate	4.0%	4.0%

* Grading down by 1% per year

Sensitivity of actuarial assumptions

The key economic assumptions used in measuring the pension benefit liability and related expenses are outlined in the table below. The sensitivity analysis provided in the table is hypothetical and changes in each key assumption may not be linear. The sensitivities in each key assumption have been calculated independently of changes in other key assumptions. Actual experience may result in changes in a number of key assumptions simultaneously. Change in one assumption may result in changes in another, which could amplify or reduce certain sensitivities.

		Impact of			Impact of			Impact of	
($ millions)	Discount rate (%)	1% increase ($)	1% decrease ($)	Rate of compensation increase (%)	0.25% increase ($)	0.25% decrease ($)	Expected rate of return on plan assets (%)	1% increase ($)	1% decrease ($)
Employees' Pension Plan									
Benefit liability*	5.20	(322.4)	413.0	3.50	25.9	(25.1)	7.00	n/a	n/a
Benefit expense**	5.75	(11.3)	13.0	3.50	2.6	(2.6)	7.00	(16.8)	16.8
Employees' Supplementary Pension Plan									
Benefit liability*	5.20	(2.5)	3.1	3.50	0.6	(0.6)	3.50	n/a	n/a
Benefit expense**	5.75	(0.1)	0.1	3.50	0.1	(0.1)	3.50	-	-
Unfunded pensions									
Benefit liability*	5.20	(0.3)	0.3	3.50	-	-	-	n/a	n/a
Benefit expense**	5.75	-	-	3.50	-	-	-	-	-
Total change									
Benefit liability*	**5.20**	**(325.2)**	**416.4**	**3.50**	**26.5**	**(25.7)**	**7.00**	**n/a**	**n/a**
Benefit expense**	**5.75**	**(11.4)**	**13.1**	**3.50**	**2.7**	**(2.7)**	**7.00**	**(16.8)**	**16.8**

* Accrued benefit obligation as of December 31, 2010
** 2010 Pension expense

11. Benefit liabilities and benefit costs

Benefit liabilities represent an actuarially determined provision for future benefit payments relating to incurred claims and the expense of administering those future benefit payments that are discounted to the valuation date at the assumed rates shown below. Estimates of future benefit payments apply to both reported and unreported claims resulting from injuries and illnesses, including occupational diseases, which occurred on or before December 31, 2010, and are based on the level and nature of entitlement and adjudication practices in effect at that date.

The benefit liabilities were determined using accepted actuarial practices in accordance with the standards of practice established by the Canadian Institute of Actuaries. Benefit liabilities are calculated as the present value of expected future benefits, which is considered an indicator of fair value since there is no ready market for the trading of benefit liabilities.

The actuarial present value of future benefit payments depends on economic and actuarial assumptions that are based on past experience, modified for current trends and expected development. These assumptions may change over time to reflect underlying conditions, and it is possible that such changes could cause a material change in the actuarial present value of future benefit payments.

The following key long-term economic assumptions were used in the actuarial valuation of the benefit liabilities:

	2010	2009
Inflation rate	2.5%	2.5%
Discount rate	7.0%	7.0%
Rate of indexation of benefits		
Fully indexed	2.5%	2.5%
Partially indexed	0.5%	0.5%
Wage escalation rate	3.5%	3.5%
Health-care costs escalation rate	6.5%	6.5%

A detailed review of the discount and inflation rate assumptions was conducted by an actuarial consulting firm late in 2007. The review suggested that a nominal discount rate in the range of 7.0 per cent – 7.5 per cent and a rate of inflation in the range of 2.0 per cent – 3.0 per cent would be considered appropriate.

As a result of the review, a long-term rate of inflation of 2.5 per cent per annum was assumed for fully indexed disability payments. For partially indexed payments, the indexation assumption was set equal to 0.5 per cent per annum. This recognizes that the indexing factor for partially indexed benefits may continue to be determined by regulations made under the *Workplace Safety and Insurance Act* as amended by Bill 187 in May 2007 and extended in 2009 and 2010.

Mortality for injured workers benefits is based on the WSIB injured-worker mortality experience from 1996 to 2000 projected to 2010 and adjusted for mortality improvements to 2020. For survivors of deceased workers, mortality is based on 2000 – 2002 Ontario Life Tables projected to 2010 and adjusted for mortality improvements to 2020.

Loss-of-earnings termination rates are based on the WSIB injured workers termination experience, updated to reflect more recent experience as well as future expectation of claims terminations.

The benefit liabilities include a provision for claims expected to be made after 2010 for potential occupational disease claims with long latency period, where such claims are expected to arise as a result of exposures incurred in the workplace before 2010. This provision is required under the Canadian Institute of Actuaries Practice-Specific Standards for Public Personal Injury Compensation Plans, by December 31, 2014.

Provisions have been made for the effect of future increases in the covered earnings ceiling and the minimum and maximum limits affecting income benefits.

Long-term economic and actuarial assumptions and methods are reviewed annually when an actuarial valuation is performed. Management believes that the valuation methods and assumptions are, in aggregate, appropriate for the valuation.

The change in present value of future benefit payments for reported and unreported work-related injuries and illnesses, and the change in future claims administration costs, are recorded as benefit costs. Any adjustments resulting from the continuous review of entitlements and experience, or from changes in legislation, assumptions, or methods, are also included as benefit costs.

Sensitivity of actuarial assumptions

The benefit liabilities were calculated based on actuarial assumptions. Changes in some assumptions can cause significant changes in the benefit liabilities. The sensitivities are illustrated as follows:

- The actuarial assumption that is most sensitive to change was the assumed discount rate of 7.0 per cent per annum. The approximate impact of a 1.0 per cent decrease in the discount rate would increase benefit liabilities by approximately $1,631 million (2009: $1,555 million).
- A 1.0 per cent increase in benefit indexation rate would increase benefit liabilities by approximately $1,268 million (2009: $1,280 million).
- Health-care benefit liabilities were calculated assuming a future rate of escalation of health-care costs of 6.5 per cent per annum. A 1.0 per cent increase in the escalation factors used for future health-care costs would increase benefit liabilities by approximately $251 million (2009: $255 million).
- The calculation of benefit liabilities for the loss-of-earnings benefit used the WSIB injured workers claim termination experience. A flat reduction of 1.0 per cent in termination rates would increase benefit liabilities by approximately $40 million (2009: $43 million).
- The calculation of benefit liabilities was based on the WSIB injured worker mortality experience. A flat reduction of 1.0 per cent in these mortality rates would increase benefit liabilities by approximately $25 million (2009: $23 million).
- A 1.0 per cent increase in the number of lost time injuries in the current year would increase benefit liabilities by approximately $11 million (2009: $12 million).

Benefit liabilities and benefit costs paid in 2010 are as follows:

($ millions)	2010								2009
		Labour market re-entry		Short- &			Claim		
	Loss-of-earnings	Income support	External providers	long-term disability	Health care	Survivor benefits	admin. costs	Total	Total
Benefit liabilities, beginning of year	$ 7,776	$ 42	$ 500	$ 8,820	$ 3,298	$ 1,920	$ 894	**$ 23,250**	**$ 22,340**
Benefit costs	1,836	156	107	1,068	784	473	385	**4,809**	**4,736**
Benefit costs paid during the year									
Schedule 1	(972)	(156)	(151)	(1,113)	(497)	(178)	(342)	**(3,409)**	**(3,516)**
Schedule 2	(104)	(6)	(5)	(99)	(65)	(21)	-	**(300)**	**(310)**
	(1,076)	(162)	(156)	(1,212)	(562)	(199)	(342)	**(3,709)**	**(3,826)**
Change in benefit liabilities	760	(6)	(49)	(144)	222	274	43	**1,100**	**910**
Benefit liabilities, end of year	$ 8,536	$ 36	$ 451	$ 8,676	$ 3,520	$ 2,194	$ 937	**$ 24,350**	**$ 23,250**

12. Reconciliation of the change in the unfunded liability

The change in the unfunded liability is affected by a number of factors. These include an interest charge on the unfunded liability, premiums applied to reduce the unfunded liability, experience gains and losses, changes in legislation, and changes in actuarial assumptions.

The interest charge on the unfunded liability recognizes that there are no assets supporting a portion of the liabilities, resulting in a shortfall in investment income to pay future claim payments. Premiums that are collected to reduce the unfunded liability include an amount to cover this shortfall.

In addition, the difference between expected and actual experience on items such as indexation, investment returns, and claims experience also affects the change in the unfunded liability.

($ millions)	**2010**	**2009**
Unfunded liability, beginning of year	$ 11,751	$ 11,469
Add (deduct):		
Interest charge on unfunded liability	815	785
Premiums allocated to reduction of unfunded liability	(900)	(1,007)
Experience (gains)/losses resulting from:		
Indexation of benefits less than expected	(92)	(221)
Higher than expected investment return	(175)	(653)
Prior and current years' claims experience	(437)	432
Changes in assumptions:		
Liability for exposure prior to diagnosis of occupational disease	600	-
Increase in claim durations	593	564
Mortality (10-year improvement projection)	200	-
Other changes:		
Reductions in personal income tax rates	-	130
Impact of legislation enacted in 2007:		
Increase in liabilities resulting from Bill 187	-	134
Increase in liabilities resulting from Bill 221	-	118
Unfunded liability, end of year	**$ 12,355**	**$ 11,751**

Bill 187 increased indexing for partially indexed benefits, and provides for claims after lock-in to be reassessed. Bill 221 improves coverage for firefighters with occupational cancers and work-related heart attacks.

13. Administrative and other expenses

Administrative and other expenses consist of the following:

($ millions)	2010	2009
Salaries and fringe benefits	$ 324	$ 326
Equipment and maintenance	37	37
Occupancy	41	42
Communication	11	12
Supplies and services	5	7
Travel and vehicle maintenance	4	5
New systems development and integration	2	4
Other	15	16
	439	449
Amortization expense	26	21
Staff benefit plans	90	56
	555	526
Claim administration costs (note 11)	(342)	(338)
	$ 213	**$ 188**

14. Related-party transactions

Legislated obligations and commitments

Under the *Workplace Safety and Insurance Act, 1997* and as directed by the Lieutenant Governor through Orders in Council, the WSIB is required to reimburse the Government of Ontario for all administrative costs of the *Occupational Health and Safety Act*. The WSIB is also required to fund the Workplace Safety and Insurance Appeals Tribunal (WSIAT), and the Offices of the Worker and Employer Advisor. These reimbursements and funding amounts are determined and approved by the Minister of Labor. The WSIB is also committed to providing funding for the Institute for Work and Health and Safe Workplace Associations, clinics and training centers.

The total amount of funding provided under these legislated obligations and commitments in 2010 was $227 million (2009: $227 million).

Investments

Included in investments are marketable fixed income securities issued by the Ontario provincial government and related corporations valued at $944 million (2009: $858 million).

Other

In addition to legislated obligations and workplace health and safety expenses, the consolidated financial statements include amounts resulting from transactions conducted in the normal course of operations with various Ontario government controlled ministries, agencies, and crown corporations. Such transactions are conducted on terms and conditions similar to those that apply to transactions with unrelated parties. Account balances resulting from these transactions are not significant

15. Commitments and contingencies

Contractual obligations

The WSIB has obligations under long-term, non-cancellable contracts for office space, leased equipment, software licenses, and commitments for purchases of goods and services. At December 31, 2010, the WSIB was committed under non cancellable contracts requiring future minimum payments of approximately $28 million (2009: $23 million) per year over the next five years and $15 million (2009: $16 million) in aggregate thereafter.

Capital leases are included in note 9.

Investment commitments

As of December 31, 2010, the WSIB had entered into commitments to acquire real estate investments and infrastructure investments for $35 million (2009: $91 million) and $120 million (2009: $100 million) respectively.

Legal actions

The WSIB is party to various claims and lawsuits, which are being contested. In the opinion of management, the outcome of such claims and lawsuits will not have a material effect on the WSIB expenses or financial position.

Bank line of credit

The WSIB maintains an unsecured $150 million line of credit with a commercial bank. In 2010, the WSIB utilized $406 thousand (2009: nil thousand) with respect to the letters of credit in favour of Ontario Ministry of Finance related to certain real estate transactions completed by WSIB Investment (Realty) Limited, a wholly owned subsidiary of the WSIB.

16. Capital management

The WSIB is required by legislation to maintain its investments at a level sufficient to make the required payments under the insurance plan as they become due. In keeping with this requirement, the WSIB's strategic objectives include the overarching goal of ensuring that the workplace safety and insurance system remains financially sustainable for future generations.

To meet this goal, the WSIB established a funding framework to provide a prudent and fiscally responsible process for setting stable and predictable premium rates for employers while ensuring long-term financial sustainability. The WSIB's investment strategy is integrated with the funding framework and is a key fundamental to ensure the long-term financial sustainability of the workplace safety and insurance system.

The table below shows the WSIB's current funded status:

($ millions)	2010	2009
WSIB assets*	$ 14,808	$ 13,931
WSIB liabilities	$ 27,163	$ 25,682
Funding ratio	54.5%	54.2%

* The net of total assets less $1,830 million (2009: $1,630 million) non-controlling interest in pooled investments

17. Comparative figures

Certain of the comparative amounts have been reclassified to conform to the presentation adopted in the current year.

Ten-year summary of the statements of operations and unfunded liability

($ millions)	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Revenues										
Premiums for current year	$2,835	$2,533	$2,604	$2,499	$2,385	$2,256	$2,124	$2,068	$1,997	$1,866
Investments	1,139	686	(1,340)	812	1,298	819	470	456	246	765
Other income	3	1	2	2	3	3	49			
	3,977	**3,220**	**1,266**	**3,313**	**3,686**	**3,078**	**2,643**	**2,524**	**2,243**	**2,631**
Expenses										
Benefit costs paid	3,709	3,826	3,678	3,476	3,285	3,197	3,101	2,996	2,883	2,755
Net increase in benefit liabilities	1,100	910	580	1,460	1,050	840	950	495	692	270
Loss of Retirement Income Fund	167	194	(54)	70	64	66	60	56	52	50
	4,976	**4,930**	**4,204**	**5,006**	**4,399**	**4,103**	**4,111**	**3,547**	**3,627**	**3,075**
Administrative and other expenses	213	188	214	243	221	203	204	210	240	236
Legislated obligations	227	227	226	218	208	200	188	172	160	162
	5,416	**5,345**	**4,644**	**5,467**	**4,828**	**4,506**	**4,503**	**3,929**	**4,027**	**3,473**
Excess of expenses over revenues from current operations	(1,439)	(2,125)	(3,378)	(2,154)	(1,142)	(1,428)	(1,860)	(1,405)	(1,784)	(842)
Premiums for unfunded liability	900	1,007	962	1,024	1,000	934	1,017	861	902	860
Transfer of electrical utilities from Schedule 2	–	–	–	–	–	–	–	–	(52)	–
	(539)	**(1,118)**	**(2,416)**	**(1,130)**	**(142)**	**(494)**	**(843)**	**(544)**	**(934)**	**18**
Non-controlling interest in income from pooled investments	(136)	(71)	–	–	–	–	–	–	–	–
Excess (deficiency) of revenues over expenses	**$ (675)**	**$(1,189)**	**$(2,416)**	**$(1,130)**	**$(142)**	**$(494)**	**$(843)**	**$(544)**	**$(934)**	**$18**
Unfunded liability, beginning of year	$ (11,751)	$ (11,469)	$ (8,094)	$ (5,997)	$ (6,510)	$ (6,420)	$ (7,135)	$ (6,591)	$ (5,657)	$ (5,675)
Effect of change in accounting policy	–	–	–	–	–	–	1,088	–	–	–
Net change in ownership share of non-controlling interest in pooled investments	4	–	–	–	–	–	–	–	–	–
Other comprehensive income	67	907	(959)	(967)	655	404	470			
Excess (deficiency) of revenues over expenses	(675)	(1,189)	(2,416)	(1,130)	(142)	(494)	(843)	(544)	(934)	18
Unfunded liability, end of year	**$(12,355)**	**$(11,751)**	**$(11,469)**	**$(8,094)**	**$(5,997)**	**$(6,510)**	**$(6,420)**	**$(7,135)**	**$(6,591)**	**$(5,657)**

Other statistics

	2010	2009	2008	2007	2006	2005	2004	2003	2002	2001
Schedule 1										
Average premium rate (per $100 of payroll)	$2.30	$2.26	$2.26	$2.26	$2.26	$2.19	$2.19	$2.19	$2.13	$2.13
Total insured payroll ($ millions)	$150,306	$144,910	$150,535	$146,393	$140,912	$135,865	$130,398	$125,638	$120,252	$113,727
Schedule 1 & 2										
Number of new claims by registration year	240,220	249,477	312,315	329,161	336,851	352,996	352,474	354,926	361,179	371,067
Employees at December 31										
Full-time equivalent	4,366	4,284	4,467	4,359	4,241	4,317	4,370	4,238	4,350	4,467

wsib
ONTARIO